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John W. Suomela, *Director*

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INTERNATIONAL ECONOMIC COMPARISONS

Summary of U.S. Economic Conditions

The prospect of economic recovery has brightened after the precipitous decline of several major economic indicators in the first quarter of 1991. Receding inflation and rising consumer spending are expected to spark the recovery. Inflation measured by consumer prices rose by only 0.2 percent in April 1991 and at an annual rate of only 1.5 percent over the past 3 months, according to the U.S. Department of Labor. The reduction in the rate of inflation well below the 1990 level is believed to have encouraged an increase in consumer spending, the key to economic recovery. The statistics released by the U.S. Department of Commerce on retail sales confirm that consumer spending has been rising. Commerce revised upward retail sale figures to 0.4 percent increase in March 1991 from a decline of 0.8 percent reported earlier. Major consumer items showed an increase in sales in April 1991. Seasonally adjusted auto sales rose by 0.3 percent, furniture and furnishings sales rose by 1.8 percent and department store sales rose by 0.6 percent in April 1991.

The change in economic expectations came after the precipitous decline in several major economic indicators in the first quarter of 1991. Economic data released by the U.S. Department of Commerce for the first quarter of 1991 showed steep declines in business investment, housing, Government purchases, and orders to manufacturers. Real GNP declined at an annual rate of 2.8 percent, the steepest decline since the 1981-82 recession. In the first quarter of 1991, about two thirds of the GNP drop was attributed to the decline in business spending. Investment spending on new plant and equipment plunged 15.5 percent at an annual rate in January-March 1991 from the previous quarter. Housing construction plunged at a 26.5 percent rate in the first quarter, the fourth consecutive large decline. Moreover, demand in the manufacturing sector weakened for the 5th consecutive month as orders received by manufacturers plunged 2.8 percent in March 1991, the fifth consecutive monthly plunge. Inflation adjusted consumer spending also declined in the first quarter of 1991 but at a smaller annual rate of 1.4 percent compared with the 3.4 percent decline in the fourth quarter of 1990, marking an improvement in consumer confidence.

Because of the recession and the dampening of U.S. demand for imports, which exceeded the reduction in foreign demand for U.S. exports, U.S. exports exceeded imports for the first time in 8 years. In the first quarter of 1991 exports of goods and services amounted to \$646.5 billion at an annual rate while imports amounted to \$644.3 billion. Export

growth has been a major factor in softening the recession in the United States. Because of export growth, the GNP dropped in the first quarter at a much lower rate than the 5.5 percent rate of decline in 1981 and the 5.9 percent annual rate of decline in the first quarter of 1982. Export growth will be further enhanced by the Federal Reserve's recent cuts of the discount rate to 5.5 percent and of the Federal funds rate to 5.75 percent, as well as any further declines in interest rates. The decline in the relative foreign value of the dollar associated with declining U.S. interest rates, will bolster U.S. export growth.

Economic Growth

The annualized rate of real economic growth in the United States in the first quarter of 1991 fell by 2.8 percent. In the fourth quarter of 1990, the growth rate was revised upward to a negative 1.6 percent from the negative 2.1 percent estimated earlier. The real growth rate was 1.4 percent in the third quarter, 0.4 percent in the second quarter and 1.7 percent in the first quarter of 1990. The real growth rate for all of 1990 was 0.9 percent. The annualized rate of real economic growth in the fourth quarter of 1990 was -3.8 percent in the United Kingdom, 1.5 percent in Germany, -1.6 percent in France, 2.1 percent in Japan, -4.0 percent in Canada, and 0.7 percent in Italy.

Industrial Production

U.S. industrial production increased by 0.1 percent in April 1991 after 6 months of decline. It declined by a revised 0.6 percent in March, 0.8 percent in February and 0.5 percent in January 1991. The April 1991 index was 3.4 percent lower than it was in April 1990. The April 1991 rise reflected mainly the 10.8 percent increase in production of autos and trucks. Production of construction supplies also edged up 0.4 percent in April after dropping sharply for 8 months, signalling that the real estate depression might be bottoming out. Manufacturing output edged up 0.2 percent after slipping 0.8 percent in March 1991. For the first quarter of 1991 as a whole, industrial production fell at an annual rate of about 9.6 percent after falling 7.0 percent in the previous quarter. Capacity utilization in manufacturing, mining, and utilities dropped in April 1991 by 0.2 percent to 78.3 percent, after declining by 0.6 percent in March to 78.5 percent.

Other major industrial countries reported the following annual growth rates of industrial production: for the year ending March 1991, Germany reported an increase of 4.0 percent, Japan reported an increase of 3.5 percent; for the year ending February 1991, France reported an increase of 1.7 percent whereas the United Kingdom reported a decrease of 2.5 percent, Canada reported a decrease of 6.0 percent and Italy reported a decrease of 2.2 percent.

Prices

The seasonally adjusted U.S. Consumer Price Index rose by 0.2 percent in April 1991. The consumer price index rose by 4.9 percent during the year ending April 1991.

During the 1-year period ending April 1991, consumer prices increased by 6.7 percent in Italy and 2.8 percent in Germany. During the 1-year period ending in March 1991 consumer prices increased 8.2 percent in the United Kingdom, 3.2 percent in France, 6.3 percent in Canada, and 4.0 percent in Japan.

Employment

The seasonally adjusted rate of unemployment in the United States (on a total labor force basis, including military personnel) dipped to 6.5 percent in April from 6.8 percent in March 1991. The unemployment rate was 6.4 percent in February and 6.1 percent in January 1991.

In April 1991, Germany reported 6.2 percent unemployment. In March 1991, Canada reported 10.5 percent, Japan 2.2 percent, the United Kingdom 7.4 percent, Italy 9.7 percent, and France 9.3 percent unemployment. (For foreign unemployment rates adjusted to U.S. statistical concepts, see the tables at the end of this issue.)

Forecasts

Table 1 shows macroeconomic projections for the U.S. economy for April-December 1991, by four major forecasters, and the simple average of these

forecasts. Forecasts of all the economic indicators, except unemployment, are presented as percentage changes over the preceding quarter, on an annualized basis. The forecasts of the unemployment rate are averages for the quarter.

The average forecasts point to a moderate rebound in growth rates of nominal and real GNP starting the third quarter of 1991 and continuing throughout the remainder of the year. There are many possible reasons for the mildness of the recovery in 1991: the general slowdown in the world economy, particularly in the industrialized countries; the sluggish rise in consumer spending, particularly consumer spending on durable goods, as a result of the sharp increases in prices; the increase in excise taxes introduced in the new U.S. budget plan and the high level of consumer indebtedness; the expected low level of investment spending because of lower business expectations and the reduction in available credit as a result of the Savings and Loans crisis; and the less expansionary fiscal policies adopted by other industrial countries. However, several dynamics appear to be working in favor of stronger growth: the decline in interest and inflation rates in the first quarter of 1991, which might encourage a rise in consumer and business spending; the surge in export growth as a result of the decline in the foreign value of the dollar associated with the lowering of U.S. interest rates by the Federal Reserve; and the low level of inventories held by businesses, which could prompt a buildup of replenished business inventories once a recovery starts. The average of the forecasts predicts an increase in the unemployment rate in the second and third quarters of 1991 and a decline afterwards. Inflation (measured by the GNP deflator index) is expected to dip in the remainder of 1991.

Table 1
Projected quarterly percentage changes of selected U.S. economic Indicators, 1991
(In Percent)

Quarter	UCLA Business Forecasting Project	Merrill Lynch Capital Markets	Data Resources Inc.	Wharton E.F.A. Inc.	Mean of 4 fore- casts
GNP Current Dollars:					
1991:					
April-June	3.1	3.3	2.5	3.5	3.1
July-September	5.4	4.6	6.7	5.8	5.6
October-December	6.2	7.1	6.5	7.0	6.7
GNP Constant (1982) Dollars:					
1991:					
April-June	-0.5	-0.4	0.2	0.8	0.3
July-September	2.4	0.5	3.6	3.6	2.5
October-December	3.6	3.1	3.4	4.5	3.6
GNP deflator index:					
1991:					
April-June	3.6	3.7	2.3	2.6	3.1
July-September	2.9	4.1	3.0	2.1	3.0
October-December	2.5	3.9	3.1	2.4	3.0
Unemployment, average rate:					
1991:					
April-June	6.9	7.1	6.8	6.5	6.8
July-September	7.1	7.1	7.0	6.6	7.0
October-December	7.1	6.9	6.9	6.3	6.8

Date of Forecasts: May, 1991.

Note.—Except for the unemployment rate, percentage changes in the forecast represent compounded annual rates of change from preceding period. Quarterly data are seasonally adjusted.

Source: Compiled from data provided by The Conference Board. Used with permission.

U.S. TRADE DEVELOPMENTS

The U.S. merchandise trade deficit declined in March 1991 to its lowest level in 8 years due to the accelerated rise in exports and the decline in imports of industrial commodities. Seasonally adjusted U.S. merchandise trade in billions of dollars as reported by the U.S. Department of Commerce is shown in table 2.

When oil is included, the seasonally adjusted U.S. merchandise trade deficit in current dollars declined by 27.3 percent in March 1991 to \$4.1 billion from \$5.5 billion in February 1991. The March 1991 deficit was 51.8 percent lower than the \$8.3 billion average monthly deficit registered during the previous 12-month period, and 53.5 percent lower than the \$8.6 billion deficit registered in March 1990. When oil is excluded, the March 1991 merchandise trade deficit declined by 59.3 percent from the previous month.

In March 1991, exports increased and imports declined. Including oil, seasonally adjusted exports in current dollars rose by \$400 million in March to \$34.0 billion while imports declined by about \$1.2 billion to \$38.0 billion. Excluding oil, U.S. imports declined by \$1.2 billion to \$35.1 billion in March from February 1991. The U.S. oil import bill stabilized at \$2.8 billion in March 1991.

In seasonally adjusted constant dollars, the March 1991 trade deficit declined by \$1.2 billion from February 1991. The trade surplus in advanced-technology products rose to \$3.6 billion in March 1991 from \$2.4 billion in February 1991. (Advanced-technology products as defined by the U.S. Department of Commerce include about 500 products from recognized high-technology fields—for example, biotechnology—out of a universe of some 22,000 commodity classification codes.)

Nominal export changes in March 1991 for specified major exporting sectors are shown in table 3. The sectors that recorded the most export increases in March 1991 include airplanes, automatic data processing and office machinery, telecommunications, general industrial machinery, specialized industrial machinery, vehicle parts, power generating machin-

ery, scientific instruments, electrical machinery and textiles, yarns, fabrics and articles.

The U.S. agricultural trade surplus rose slightly to \$1.64 billion in March 1991. U.S. bilateral trade balances on a monthly and year-to-date basis with major trading partners are shown in table 4. The United States experienced improvements in bilateral merchandise trade balances in March 1991 with the NICs, OPEC, China, Canada, Germany, the EC, Western Europe, and the U.S.S.R., and a small deficit worsening with Japan. The deficit with the newly industrializing countries (NICs) declined by \$330 million, the deficit with OPEC declined by \$350 million, and the deficit with China declined by \$270 million. The trade deficit with Canada and Germany declined slightly. The surplus with the EC almost doubled to \$2.8 billion and the surplus with Western Europe almost tripled to \$3.2 billion. The surplus with the U.S.S.R. rose to \$380 million. On a cumulative year-to-date basis the United States experienced improvements in its bilateral trade balances from a year earlier with almost all trading partners except Japan, Canada and China.

INTERNATIONAL TRADE DEVELOPMENTS

"Nontrade" Issues Emerging for FTA or NAFTA Negotiations

Preparation for a United States-Mexico free trade agreement (FTA) or a North American free trade agreement (NAFTA) brings to the fore some concerns that are unusual in the course of trade negotiations. The cultural implications of the United States-Canada FTA have already shown the unconventional issues that can arise from trade talks ("although cultural industries," such as publishing and recording, were eventually excluded from that accord). Gearing up for negotiations of an FTA or NAFTA involving Mexico raises several other sensitive so-called "nontrade" issues specific to forging new relations between highly advanced industrial and

Table 2
U.S. Merchandise Trade, Seasonally Adjusted

	Exports		Imports		Trade balance	
	Feb. 91	March 91	Feb. 91	March 91	Feb. 91	March 91
<i>Billion dollars</i>						
Current dollars						
Including oil	33.6	34.0	39.1	38.0	-5.5	-4.0
Excluding oil	33.6	34.0	36.3	35.1	-2.7	-1.1
1987 dollars	31.2	31.7	35.7	35.0	-4.5	-3.3
Three-month-moving average	33.8	33.9	40.2	39.5	-6.4	-5.6
Advanced technology products (not seasonally adjusted)	7.1	9.0	4.7	5.3	+2.4	+3.6

Table 3
U.S. exports, not seasonally adjusted, of specified sectors, by specified periods, January 1990-March 1991.

Sector	Exports		Change		Share of total	
	January-March 1991	March 1991	January-March 1991	March 1991 over January-March 1990	January-March 1991	March 1991 over January-March 1991
			over February 1991	Percent	March 1991	March 1991
Billion dollars						
Manufactures						
ADP equipment and office machinery	6.61	2.60	5.8	30.6	6.4	7.1
Airplanes	4.77	2.00	-2.2	56.0	4.6	5.4
Airplane parts	2.45	0.82	1.7	7.9	2.4	2.2
Electrical machinery	7.36	2.66	6.7	13.2	7.2	7.2
General industrial machinery	3.94	1.46	0.5	19.7	3.8	4.0
Iron and steel mill products	0.97	0.30	31.1	-9.1	0.9	0.8
Inorganic chemicals	0.94	0.33	6.8	3.1	0.9	0.9
Organic chemicals	3.11	1.12	21.5	9.8	3.0	3.0
Power-generating machinery	3.97	1.41	-2.9	13.7	3.9	3.8
Scientific instruments	3.29	1.20	9.7	13.2	3.2	3.3
Specialized industrial machinery	3.95	1.44	3.7	16.1	3.8	3.9
Telecommunications	2.29	0.85	9.6	25.0	2.2	2.3
Textile yarns, fabrics and articles	1.28	0.46	4.9	12.2	1.2	1.2
Vehicle parts	3.09	1.11	-12.2	15.6	3.0	3.0
Other manufactured goods ¹	5.84	1.97	7.7	2.6	5.7	5.4
Other manufactured exports not included above	23.55	8.25	8.8	11.2	22.9	22.4
Total manufactures	77.41	27.98	5.5	15.6	75.5	76.1
Agriculture	10.18	3.58	-9.1	4.4	9.9	9.7
Other exports	15.00	5.20	14.8	3.0	14.6	14.2
Total exports	102.59	36.76	5.1	12.5	100.0	100.0

¹ This is an official U.S. Department of Commerce commodity grouping.

Note: Detail lines may not add to totals because of rounding.

Source: U.S. Department of Commerce News (FT 900), May 1991.

Table 4
U.S. merchandise trade deficits (-), surpluses (+) in billions of dollars, not seasonally adjusted, with specified areas.

Area and country	March 1991	February 1991	March 1990	January-March 1991	January-March 1990
Japan	-3.57	-3.16	-3.57	-10.20	-9.55
Canada	-0.48	-0.51	-0.20	-1.44	-0.75
Germany	-0.45	-0.56	-0.92	-1.43	-2.32
EC	+2.82	+1.41	+0.99	+5.57	+2.17
Western Europe	+3.18	+1.36	+0.65	+5.64	+1.30
NICs	-0.23	-0.56	-0.91	-1.79	-4.04
U.S.S.R.	+0.38	+0.32	+0.34	+0.86	+0.93
China	-0.50	-0.77	-0.55	-2.19	-1.85
OPEC	-0.97	-1.32	-1.89	-4.31	-6.49
Total trade balance	-1.84	-4.33	-6.37	-13.19	-22.16

Note 1. NICs include Singapore, Hong Kong, Taiwan, and the Republic of Korea.

Note 2. The difference between trade balances shown in total exports table and those shown in the above (country/area) table represents exports of certain grains, oilseeds, and satellites that are not included in the country/area exports.

Source: U.S. Department of Commerce News (FT-900), May 1991.

developing countries. These concerns extend to certain domestic policies of the third-world partner that influence trade flows. They are as diverse as child labor and workers' safety, environmental legislation and its enforcement, transport and education policy, farming system, immigration policy, and even the country's political system.

Social issues.—It appears that scrutiny of the FTA's probable effect on jobs, wages and prices (all standard trade and investment-related issues) is being broadened with the need to address matters such as relative labor costs, if achieved by methods unacceptable in the United States or Canada. Child labor

and low standards for workers' safety are two such typical social problems. It is illegal in Mexico to hire children under 14, but the Mexico City Assembly estimates that anywhere from 5 to 10 million children are employed illegally, and often in hazardous jobs.

These issues are typically raised by United States and Canadian labor representatives who object to an FTA mostly because their own countries' workers whose jobs might be threatened. But the same labor representatives would also raise these issues on behalf of workers in Mexico, claiming that their sufferings will spread as a result of an FTA. (By contrast, Mexican labor unions are reportedly in favor of an FTA.)

Managers in the Northern partners' industries also bring up some of the very same issues. They fear that an FTA will dismantle their tariff and nontariff protection against imports from Mexico. They point out that the competitiveness of these imports is, in part, attributable to Mexico's lower social standards. In the United States, managers from the apparel industry, electronics assembly, and other labor-intensive manufacturing industries voice these concerns.

Environmental issues.—United States and Canadian representatives of labor and some industries also raise the issue of poor workplace and general environmental conditions in Mexico (including substandard housing) that affect the workers' health inside and outside the work environment. For example, they point out that Mexican farm workers are exposed to pesticide contamination from which the U.S. Occupational Safety and Health Administration protects their counterparts in the United States. Labor representatives argue that, in addition to cheap labor, low workplace and environmental standards attract U.S. companies to locate in Mexico, taking U.S. jobs with them. U.S. growers of citrus, asparagus, and other fruits and vegetables have also been vocal about the difference in environmental standards as well in the two countries that gives Mexican products an unfair competitive edge of questionable value.

Ecologists worry about consumers and environmental degradation and want to use the FTA issue to broaden their concerns for the global ecology. Several U.S. leaders, who strongly favor the FTA, including two former Secretaries of State, agree that the eventual agreement should be accompanied by appropriate measures which address environmental concerns.

Mexico's 1988 law on ecology reportedly has standards similar to those in the United States, but enforcement is poor. (However, the recent closing of Mexico's largest oil refinery—the worst polluter in Mexico City—shows the Government's heightened attention to the problem). Many areas of Mexico, especially the border area where U.S.-owned operations are concentrated, suffer from toxic waste disposal that causes severe air and water pollution. Northern environmentalists point out that fruits and

vegetables imported from Mexico contain DDT and other pesticide residues banned in the United States. On such grounds, labor representatives and environmentalists oppose an FTA unless Mexicans make a serious commitment to clean up their environment.

Infrastructure; laws affecting competition.—The prospect of free cross-border trade and capital flows typically raises a number of additional concerns normally considered the business solely of that country's own Government. Many of these pertain to infrastructure when a third-world partner is involved. In the case at hand, even after a narrowly defined FTA or NAFTA will have taken effect, the operations of United States or Canadian investors and traders could be seriously hindered by inadequate rail transport, telephone systems, or education in Mexico.

Also, Mexico's regulatory and distribution systems might interfere with free competition in its markets. This interference would jeopardize foreign interests even after most tariff and nontariff trade and investment barriers would have been removed by a narrowly defined FTA. (Such problems arise even in U.S. trade with Japan, a first-world country). Although these impairments might be accepted as given and left to the individual traders or investors to cope with, their prevalence might weaken the FTA. Therefore, such concerns probably also need to be addressed in preparatory deliberations.

Farming system.—Systems protecting domestic farmers have plagued multilateral and bilateral trade negotiations in the world for many years. Decades were not long enough for either Japan or the European Community to make major progress in dismantling the protection of their own agricultural systems. Mexico has its "ejidos"—farming communities that have life-long use of the land assigned to them that is, nonetheless, owned by the Government.

The ejido system protects and perpetuates inefficient, undercapitalized subsistence farming on frequently poor, unirrigated land. The system keeps investors out, leaving farms in dire need of technological improvements. As a result, import protection in the form of prior licensing is still required for produce such as wheat. Also, the Mexican Constitution and 1936 agricultural reform law stipulate that foreigners are prohibited from owning land in Mexico. For reasons like these, the entire Mexican farming system and its legislative underpinnings may come into the field of critical scrutiny by FTA analysts even if these issues will not be formally made part of FTA negotiations.

Immigration.—The biggest nontrade issue that has arisen is, of course, the question whether the cross-border movement of persons will be part of the negotiations? All parties agree presently that the issue of immigration should not be on the table; in fact, while the FTA or NAFTA is as yet totally undefined and open-ended, the cross-border movement of people is the only subject definitely ruled out as part of the agenda.

Nevertheless, however broadly or narrowly the FTA or NAFTA will be defined eventually, immigra-

tion continues to be a burning issue, especially viewed in the context of an evolving United States-Mexican FTA. Answers will be sought to questions such as "Will the FTA stop or slow the illegal northbound mass-migration of Mexicans to the United States as expected?" It is increasingly recognized that the 1986 Immigration Reform Act of the United States has not resulted in the sought-after reduction of illegal immigration from Mexico. (According to some views, the wage differential between the two countries could remain so large for the foreseeable future that continued migration to the United States will stay a highly attractive proposition for many Mexicans. On these grounds, some Mexican academic sources even suggest that legal options for this unstoppable migration ought to be included in FTA negotiations.)

Politics.—For some, Mexico's present political system also presents a problem for an FTA or NAFTA. They claim that democratic standards in Mexico remain well below that of the other two North American countries, and that more freedoms—of the press, of winning and holding public office, etc.—will have to be achieved to create an appropriate environment for implementing an FTA.

Addressing political implications from another angle, FTA proponents warn that President Salinas de Gortari now has an enormous political investment in the achievement of an FTA. Therefore—they say—rejection of "fast track" authority for President Bush or any weakening of the FTA prospects, could result in a boost for left-wing and nationalistic forces in Mexico. This, in turn, could precipitate a reversal of the Mexican administration's open-door policies.

Proponents argue that the FTA will ameliorate conditions in Mexico in all "nontrade" areas over time; economic growth will pay for better occupational safety, environment, and infrastructure, and reduce the incentive of Mexicans to migrate to the North. They claim that the expected replacement of backward production methods with advanced technology will improve environmental standards in many areas to a large extent by itself. Some proponents also believe that an FTA or NAFTA will have the inescapable consequence of strengthening Mexican democracy.

The Spectrum of Industrial Cooperation—from Collusion to Pure Competition—What is Acceptable in the North American Context?

Increased reliance on regional trading groups at a time of heightened international competition and the search for new markets has focused attention on the need for a re-examination of the traditional adversarial relationship between business and government. This is particularly true in the North American context, where the private sector might be said to operate at a disadvantage because of the higher degree of cooperation that exists in other countries. The indus-

trial alliances (keiretsu) in Japan have already received significant attention. But only recently has the impact of such cooperation begun to be considered as a factor in the North American context. The United States has a long tradition of almost complete separation of the public and the private sectors. This "relationship" is enshrined in U.S. antitrust law. Canada, on the other hand, has its own tradition of competition law, more in line with the European manner of addressing corporate mergers, alliances, etc., and less adversarial than the U.S. policy.

The United States-Canada Free-Trade Agreement (FTA) in 1989 and the long-term view that such a pact will closely ally North American business leads to the question of the need for some harmonization between United States and Canadian official policies. Given the stated intention of both Governments to enter into negotiations with Mexico to bring about a continent wide agreement (i.e. a North American Free Trade Agreement—NAFTA), the same question is receiving more attention.

Already a number of joint actions have tried to facilitate trade and investment. Among them are (1) accelerated tariff removal, (2) standards simplification, and (3) new Government procurement opportunities. A number of tariffs have been eliminated on a speedier schedule than that originally envisaged by the agreement itself. The first round of such acceleration resulted in the removal of tariffs on some 400 products, accounting for over \$6 billion in bilateral trade. Requests for the second round of accelerated reductions are currently being considered. The effort to harmonize has led to 12 Canadian and United States standards being combined to form one binational standard in the heating and air conditioning sector. The increased opportunities for cross-border Government purchases opened up by the FTA have already resulted in 200 Canadian Government contracts worth nearly \$13 million for U.S. companies.

A United States-Canada Business Seminar sponsored by the Americas Society recently addressed the very issue of "How New Alliances and Antitrust Policies Can Advance North American Competitiveness." The seminar brought together a number of American and Canadian businesspeople, academics, lawyers, and trade specialists. It highlighted the issue of business and Government cooperation in minimizing capital costs, lessening risk as well as encouraging product and market development strategies. The need for Government regulators to take into account global marketing factors in the review of future mergers and acquisitions was also addressed.

A major point of the discussion was the formation of consortia, the rationale for their existence, and a determination of how such activity can be endorsed in a regulatory climate. The obvious point is that certain industries involve activities that can lead to cost-savings when they are undertaken across company lines. Examples of these are the establishment of standards and common sets of specifications; the

funding of high-risk research and development, more readily undertaken when the cost can be distributed among a number of companies; joint investment to fund university research; and the import of technology. It was recognized that an electronics keiretsu has already been established in the United States!

The new wave of globalization that has affected manufacturing across national lines means that regulators in one country cannot operate in isolation from regulators in another. This is particularly true of the United States and Canada. A Canadian perspective offered at the seminar maintained that effective competition legislation is not the equivalent of tougher antitrust laws. A balance needs to be struck between the efficiency gains derived from a merger and the regulators' mandate to encourage competition and reduce barriers to entry. In the United States, one commentator observed, there is a fixation on quantitative market-share analysis as the basis for antitrust work. On both sides of the border a problem is the laws protecting confidentiality.

A typical U.S. attitude underlying antitrust policy assumes an implicit spectrum running from pure competition to collusion. Attendees of the seminar saw a movement, an increased consciousness, in favor of more cooperation. This would be a move away from the idealized goal of pure competition and further along the spectrum toward cooperation.

While specific policy suggestions were neither made nor intended, there was a consensus that the situation in North America is changing: a more collaborative/cooperative effort is taking place as a vehicle to face increased international competition in the nineties. Still undefined is the distinction between cooperation and collusiveness. Precompetitive cooperative R&D is currently allowed under U.S. law, whereas cooperative marketing, manufacturing, and sales are not. The increased appearance of consortia and public corporations, sometimes across national lines, means a greater need for a clear definition and, most likely, a greater consensus concerning competition policies in North America.

EC Issues List of U.S. Trade Barriers

The EC recently published the sixth in a series of annual reports that list U.S. trade practices that pose obstacles to EC exports and investment. *Report on United States Trade Barriers and Unfair Practices, 1991* identifies about 70 U.S. barriers, ranging from tariffs to public procurement policies. The current issue is similar to the report released 1 year ago. It emphasizes the longstanding EC concern over the "arbitrary and unilateral nature of much of US trade legislation."

Publication of the EC report follows closely on the heels of the publication of the *National Trade Estimate Report on Foreign Trade Barriers* (NTE report), issued annually by the U.S. Trade Representative (USTR). The NTE report, also the sixth in a series, documents significant foreign barriers to U.S.

exports in countries throughout the world and covers the EC as well as certain member states of the Community. In contrast, the EC document focuses only on the U.S. market. The 87-page EC report is more detailed than the U.S. document but is presented in a format similar to that of the NTE report: it describes each trade barrier, estimates the potential amount of EC trade affected by each practice, and describes the actions taken or intended to be taken by the EC. Although the present list remains incomplete, the document has lengthened and the list has grown more exhaustive each year. The current report has expanded its coverage of trade restrictions related to services and investment as compared to those of previous reports. There is also an increased awareness of restrictions at the state level. According to the report, some of those issues that still require more detailed coverage include obstacles to the flow of technology, the extraterritorial reach of U.S. legislation, indirect subsidization of commercial production through U.S. Department of Defense spending on research and development, and measures to protect the environment.

Although the EC acknowledges that "the United States is in general terms a comparatively open economy," it also says that the EC trade barriers report demonstrates "that the United States is itself not free of the type of trade and investment barriers it condemns in others." The EC hopes that both the U.S. and EC lists of each other's trade barriers will increase the level of understanding of each other's concerns. The EC views its own list "as a first step towards the elimination of US barriers and unfair practices either through existing multilateral procedures, in the course of the Uruguay Round or through a bilateral dialogue between the Community and the United States." According to the EC, the recently signed Transatlantic Declaration between the United States and the Community should facilitate the resolution of such bilateral trade issues. (On November 20, 1990, the United States and EC adopted the Transatlantic Declaration that sets out the principles and framework for regular U.S.-EC consultations and cooperation in economic, educational, scientific, and cultural areas as well as in transnational issues, such as terrorism, drugs, the environment, and proliferation of nuclear weapons.)

The EC report emphasizes that the U.S. barriers cited may result not only from deliberate protectionist policies or legislation, but also from measures adopted for valid domestic reasons or from the differences that exist between the regulatory systems in the EC and the United States. Many of the U.S. barriers are compatible with international obligations, specifically the GATT. The report groups the barriers according to common characteristics or principles involved. The major topics covered in the document are—

1. U.S. trade legislation, including Section 301 of the Trade Act of 1974, the "Special 301" procedure under the 1988 Omnibus Trade Act that requires the Administration to identify countries that fail to protect U.S. intellectual

property, and Title VII of the 1988 trade act that requires the Administration to identify countries that discriminate against U.S. goods and services in their Government procurement. In April 1991, the USTR placed the EC on the Special 301 Watch List for its "Broadcast Directive," which limits U.S. audiovisual exports, and named the EC, Germany, France, and Italy in its title VII review as warranting special scrutiny.

2. Other unilateral/extraterritorial legislative measures.
3. Import barriers, including tariffs, user fees, quantitative restrictions, and import surveillance.
4. Export and other subsidies, including the Export Enhancement Program, agricultural marketing loans, and other mainly farm-related programs and measures.
5. Tax barriers affecting trade.
6. Standards, testing, labeling, and certification.
7. Public procurement, including the abuse of national security provisions, the denial of national treatment, and restrictions at the State as well as the Federal level.
8. Barriers in the financial services sector, including restrictions at the State level.
9. Barriers in other services sectors, including maritime transport, air transport, and telecommunications.
10. Intellectual property, including Section 337 of the Tariff Act of 1930.
11. Barriers to investment, including certain tax legislation and the Exxon-Florio Amendment that allows the President to investigate for national security purposes certain mergers, acquisitions, and takeovers that could result in foreign control of persons engaged in U.S. interstate commerce.

Despite the barriers affecting trade in both directions, the United States and the EC remain one of each other's largest trading partners. In 1990, the EC accounted for over one-fifth of total U.S. trade, and two-way trade between the United States and the EC rose over 10 percent from 1989 to \$183.9 billion. Upon release of the report, an EC official noted that U.S. trade barriers have only "a marginal impact on trans-Atlantic trade flows." Nonetheless, EC officials claim their concerns remain legitimate and hope the Uruguay Round will bring an end to some of the U.S. trade measures mentioned in their report. They largely blame the unsuccessful Uruguay Round talks for the lack of improvement in U.S.-EC trade relations over the past year. They warn that differences in regulatory systems, bilaterally (between the United States and the EC) but also multilaterally, will have to ease in order to reduce trade frictions in the future.

U.S.-EC Dispute over EC Oilseeds Subsidies Lingers On

The EC's failure to implement the findings of a dispute settlement panel formed by the General Agreement on Tariffs and Trade (GATT) on EC oilseeds subsidies prompted strong U.S. criticism throughout the spring, including threats of retaliation. Nonetheless, the EC remains committed to implementing major reforms only in the context of the Uruguay Round, which was supposed to conclude in 1990. Because the talks were extended, the EC does not plan to implement reforms that would comply with the panel findings until July 1992.

The oilseeds dispute began over 3 years ago when the American Soybean Association (ASA) filed a petition with the U.S. Trade Representative (USTR), alleging that the EC unfairly subsidizes its domestic production and processing of oilseeds. The ASA charged that the EC's subsidies are inconsistent with the GATT for two major reasons: (1) EC subsidies to oilseed producers impair the duty-free bindings granted to U.S. soybeans and soybean meal by the EC in 1962; and (2) EC subsidies to EC processors of oilseeds encourage the purchase of EC oilseeds at the expense of imports of oilseeds, particularly soybeans, from the United States.

On January 5, 1988, the USTR initiated a section 301 investigation in response to the complaint, but unsatisfactory bilateral consultations led to the establishment of a GATT dispute settlement panel. On January 25, 1990, the GATT Council adopted the report of the panel assigned to study the problem. The report supported the U.S. position, concluding that (1) EC payments to oilseed processors conditioned on the purchase of oilseeds originating in the Community are inconsistent with the GATT, and (2) that EC subsidies to oilseed producers impair the benefits accruing to the United States in respect of the zero tariff bindings for oilseeds.

According to the USTR, following the release of the GATT report the EC indicated its willingness to comply with the GATT panel conclusions by adapting EC regulations "within the framework of the implementation of the results of the Uruguay Round." Furthermore, the EC advised the USTR that the necessary measures would be implemented for the marketing year beginning in 1991.

However, the failure of GATT to conclude the Uruguay Round negotiations as scheduled in 1990 prompted the EC to delay oilseed subsidy reforms, which drew sharp U.S. criticism. Instead, the EC Commission proposed that its annual farm price package, covering the 1991-92 marketing year, would cut oilseed support prices by 3 percent and implement certain other measures that would "have the effect of reducing the amount of aid." Further changes to bring the oilseeds regime into conformity with the GATT would await the conclusion of the current debates within the Uruguay Round over agriculture, and within the EC on reform of the EC's Common Agricultural Policy. The EC now anticipi-

pates that the oilseed reforms will be implemented beginning July 1992, at the start of the 1992-93 marketing year.

U.S. farm groups, such as the American Farm Bureau Federation and the ASA, have urged the U.S. Administration to respond strongly to the EC failure to comply fully with the GATT panel report. Several oilseed industry associations claim that U.S. farmers, processors, and exporters are losing over \$2 billion annually in sales to the EC of oilseeds and oilseed products as a result of the EC's oilseed support regime. In addition, they claim that the United States is losing third-country markets to EC exports of "highly-subsidized" rapeseed and sunflowerseed oil.

Fifty-nine U.S. Senators and thirty-seven Representatives, in separate resolutions, have also urged the Administration to retaliate. Responding to these and industry concerns, the U.S. Administration has threatened to retaliate, but Departments within the Government have opposed actually proceeding with retaliation. Hopes that a May 2-3 meeting between U.S. and EC officials would resolve the issue collapsed when the EC insisted that major oilseed reforms will not be made until July 1992.

U.S. and EC representatives have agreed to continue discussions. U.S. plans to retaliate are currently uncertain, and the EC has not indicated how it would respond should the United States decide to retaliate. EC officials continue to argue that the real problem facing the United States is the loss of EC oilseed markets to Latin American producers.

Transition to Market-Based Trading Between Eastern Europe And the Soviet Union Is Proving Painful

Eastern Europe (Bulgaria, Czechoslovakia, Hungary, Poland, Romania) and the Soviet Union have all introduced potentially far-reaching reforms in their trade regimes as of January 1, 1991. Through five separate bilateral agreements, the East Europeans and the Soviets have agreed to use market pricing and to pay for deliveries in convertible currencies. By allowing enterprises to engage in business without state supervision, they have also created the basis for decentralized trade.

In a separate but related action, Soviet authorities introduced regulations forbidding barter and counter-trade with all trading partners, including the East European countries, also effective January 1, 1991. The action was meant to prevent a return to the methods and pattern of East European-Soviet trade that prevailed under the nearly defunct Council for Mutual Economic Assistance (CMEA). The most characteristic feature of East European-Soviet trade under CMEA was the barter of Soviet energy products and raw materials, marketable internationally, for Eastern Europe's machinery and equipment, which was often not of world-market quality. Faced with a weakening economic situation and an urgent

need for convertible currencies, Soviet policymakers saw that it was imperative to end this barter practice. The East Europeans, on the other hand, became equally impatient with a system that labeled some of their more internationally competitive products as "soft goods" (i.e., unsalable for "hard" currency) and stymied initiatives to make more competitive worldwide those goods that were indeed "soft".

Policymakers in the former Soviet bloc moved forcefully to move toward market-oriented trade, but unpropitious circumstances surrounding the introduction of the new trade regime led to a near catastrophic decline of East European-Soviet trade. From the first quarter of 1990 to the corresponding quarter of 1991, Soviet exports to Eastern Europe are estimated to have declined nearly 50 percent, and imports from these countries by over 40 percent. The rapid reduction of trade has caused shortages of industrial products in the Soviet Union, made Soviet deliveries of energy products and raw materials to Eastern Europe uncertain, and pushed several major industrial firms in Eastern Europe close to bankruptcy. The decline would have been even worse had the East European and Soviet enterprises not made use of the "transferrable ruble" (TR) to settle transactions contracted prior to 1991. (The TR was the inconvertible accounting unit used in CMEA trade.)

One of the underlying reasons for the unsuccessful start of the new trade regime was the recession that has been plaguing both Eastern Europe and the Soviet Union since the beginning of 1990. The industrial slowdown in both regions has reduced demand for machinery and equipment, and lower personal incomes have reduced demand for consumer goods.

Another reason advanced by some analysts for this poor start is that, although convertible currency reserves might have been marginally adequate to finance a relatively balanced trade between each East European country and the Soviet Union during 1990, convertible currency reserves may still not be adequate to finance this trade at least in 1991. According to Wharton Econometric Forecasting Associates (WEFA), the combined current account deficit of the five East European countries and the Soviet Union will deteriorate from US\$5.1 billion during 1990 to US\$10.4 billion during 1991. The growing shortage of convertible currencies in the Soviet Union will remain the most crucial impediment to East European-Soviet trade at least through 1992.

The use of market prices for products never before offered for sale on open markets in exchange for hard currency has also proved to be a cause for the decline of East European-Soviet trade during the first quarter of 1991. Confronted with the choice of paying roughly world market price in hard currency for a non Soviet bloc product or an allegedly similar Soviet bloc one, both the East European and Soviet importers preferred the former. The net result was the collapse of several transactions.

Some analysts consider the unequal progress of market economic reforms and trade liberalization in Eastern Europe and the Soviet Union a further im-

portant reason for the dramatic decline in East European-Soviet trade during the early months of 1991. As a result of price liberalization and the general elimination of subsidies in Poland and Hungary during 1990, domestic purchasing power in these two countries began to match the total value of goods and services available for purchase. Consequently, these countries could introduce a limited convertibility for their national currencies, allowing domestic importers to pay their suppliers in convertible currencies promptly. But in the Soviet Union the total value of goods and services is nowhere near in balance with the outstanding purchasing power. Liberalization in the exchange of rubles for convertible currencies under these circumstances would result in a run on the country's limited convertible currency reserves by Soviet firms. Although new regulations permit all Soviet enterprises to retain a portion of their export earnings, analysts believe that the Soviet state has retained effective central control over the allocation of convertible currencies. As a result of this disparity, East European importers are able to pay their Soviet suppliers promptly, but Soviet importers are often unable to assure their East European suppliers of prompt or even certain payment.

A number of East European firms have also complained that whereas they can export and import virtually without any oversight by their Governments, their Soviet partners are often unable to get import or export licenses. Many East European firms, some of which depended upon their sales to the Soviet Union for survival, stepped up their efforts to seek alternative outlets for their products in Eastern Europe and elsewhere during the early months of 1991.

Analysts concur that the countries of Eastern Europe and the Soviet Union will have to dilute, at least temporarily, their new market-oriented trade regime to avoid further declines in East European-Soviet trade and the attendant aggravation of the still worsening regional recession. Currently, only the protocols between Bulgaria and the Soviet Union and between Czechoslovakia and the Soviet Union allow for limiting the use of convertible currencies to pay for certain trade items. Such limitations will likely be extended to cover a larger portion of East European-Soviet trade and Soviet authorities will likely allow some barter and countertrade deals with Eastern Europe.

As a result, trade between each East European country and the Soviet Union may recover somewhat during the second half of 1991, but it is expected to remain far below its 1990 level. Based on data in rubles supplied by PlanEcon, Inc., Soviet trade turnover (exports plus imports) during 1990 was \$7.5 billion with Bulgaria, \$7.2 billion with Czechoslovakia, \$5.0 billion with Hungary, \$7.3 billion with Poland, and \$2.9 billion with Romania, at Rb 1.8 = US\$1 commercial exchange rate that prevailed at the end of 1990.

Analysts also expect significant deterioration in Eastern Europe's commodity terms of trade (i.e., the ratio of the average price of exports to the average

price of imports) vis-a-vis the Soviet Union at least through 1992. Such deterioration means that East Europeans will have to give up more of their goods to obtain the same amount of Soviet energy products and raw materials. This translates into lower real incomes in Eastern Europe, and into rising energy and raw material costs that may handicap efforts to increase regional industrial exports during the next few years.

Despite its initial negative impact, analysts view the trade reforms in the former Soviet bloc as a potentially favorable development. The introduction of market-based trade in a large area of the world not previously accustomed to it should mean growing marketing and investment opportunities for U.S. as well as other Western businesses.

USTR Designates China a "Priority Foreign Country" Under "Special 301"

On April 26, 1991, Ambassador Carla Hills, the United States Trade Representative (USTR), identified China as a priority foreign country under the so-called "Special 301" provisions of the Omnibus Trade and Competitiveness Act of 1988. These provisions require the USTR to identify foreign countries that lack adequate and effective protection of intellectual property rights (IPR) or that deny fair and equitable market access to U.S. persons relying on IPR protection. The statute further directs the USTR to designate as priority foreign countries those trading partners whose practices have the most adverse impact, either actual or potential, on U.S. products and who have not made significant progress in addressing these practices through either bilateral or multilateral negotiations. Once a country is identified as a priority foreign country, a section 301 investigation of the practices that were the basis of the identification must be initiated within 30 days. At the end of the investigation, which normally must be concluded within 6 months, the USTR must determine whether to take punitive action and, if so, what response is appropriate.

In the statement accompanying the designation of China as a priority foreign country, the USTR noted that China is our only major trading partner that offers neither product patent protection for pharmaceuticals and other chemicals nor copyright protection for U.S. works. From the United States view point, another unacceptable practice that China has failed to address is that of granting trademarks to the first registrant in China regardless of the original owner. In addition, trade secrets are not adequately protected and piracy is widespread in China, resulting in loss to U.S. industries. One of the most crucial issues is China's lack of copyright protection for computer software, which is estimated to be costing U.S. firms as much as \$400 million annually.

The decision to designate China (plus India and Thailand) for investigation and possible sanctions marked the first full application of the "Special 301" provisions since the 1988 Trade Law was passed.

Taking the position that the United States could resolve its IPR problems in many countries by negotiating mutually acceptable solutions, Ambassador Hills followed up the initial review under "Special 301" by naming, in May 1989, a total of 25 countries whose practices warranted special attention. Of these, 17 were placed on a "watch list," and 8, including China, were placed on a "priority watch list." The USTR also held meetings with China's Ministry of Foreign Economic Relations and Trade in May 1989, and the two countries signed a memorandum of understanding (MOU) to serve as a guideline for future action.

In the MOU, the Chinese Government made specific commitments to develop a copyright law that would include the adequate and effective protection of computer software and to improve its 1984 patent law by adding product protection for important areas such as pharmaceuticals and chemicals. In addition, the MOU contained language making China's progress in resolving these IPR issues subject to U.S. monitoring and specified that certain steps must be taken by no later than November 1, 1989. Because of its lack of progress, China was not removed from the priority watch list at that time, and it was one of only four countries still retained on this list following the second annual review under "Special 301" in April 1990.

Although China passed its first copyright law in September 1990, to become effective June 1, 1991, the exact nature of the protection afforded is not clear because the implementing regulations have not been issued. The provisions relating to computer software—the area of greatest concern to a number of U.S. companies—are particularly vague since the law requires that a separate set of implementing regulations be written for software and provides that the level of protection will be covered in these forthcoming regulations. No assurance has been given by the Chinese Government that the implementing regulations covering either works other than computer software or those covering software will be published before the law is scheduled to go into effect. China promised revisions to its patent law in 1990 but has not yet announced any changes.

On the other hand, the United States and China recently reached agreement on another IPR issue after more than 2 years of negotiations. In January 1989, the U.S. Department of State refused to renew the 1979 bilateral Science and Technology (S&T) agreement for a third 5-year term because China would not commit itself to provide copyright protection for computer software and other IPR made accessible to Chinese participants in cooperative exchanges under the agreement. Rather than allow the agreement to lapse, however, the Chinese Government has worked with State Department officials to develop an IPR annex to the agreement that would meet U.S. requirements. The United States has in turn extended the agreement three times while negotiations were underway. On April 13, 1991, the

two sides finally initialed an IPR annex, and the United States agreed to renew the S&T agreement for another 5 years. Although this is a promising development, the U.S. concerns in negotiating the annex were different from most IPR issues in that the work under the S&T agreement is either in the public domain or consists of pure research that presently has no commercial applications.

Argentina's Open-Door Economic Reforms: The Search for a Credible Economic Stabilization Plan

Since he assumed office in July 1989, Argentina's President Carlos Menem has announced ambitious measures to liberalize the Argentine economy. Menem reduced tariffs, opened the economy to foreign investment, and began selling off state-run enterprises to private investors. However, despite nearly 2 years in office and four different economic teams, the Menem administration has yet to produce a sustained reduction either in inflation or in the fiscal deficit. A new economic program announced in February 1991 is showing some early signs of success in stabilizing inflation. However, the true test of this new economic program will lie in its ability to promote sustained reductions in both the fiscal deficit and the inflation rate while reinforcing the Government's open-door economic reforms.

An Economy in Decline

Once ranked as one of among the richest countries in the world, Argentina squandered much of its wealth during years of military dictatorships, which culminated with the costly 1982 war against the United Kingdom over the Falkland Islands. Argentina returned to democratic rule in 1983. Since then, Argentina has been plagued with poorly implemented economic policies, large Government deficits, a declining tax base, a rising foreign debt service burden, and capital flight. So far, none of Argentina's post-1983 economic stabilization programs has yielded any long-term positive results.¹ These programs, based primarily on "heterodox"² policies, at

¹ These programs included: (1) the 1985 Austral Plan of wage and price freezes; (2) a 1987 adjustment program backed with funds from the International Monetary Fund (IMF) and creditor banks (suspended by the IMF in 1988 for Argentina's failure to meet the plan's targeted economic goals); and (3) the 1988 Primavera (Spring) Plan backed with funds from the United States and the World Bank.

² The heterodox approach contends that budget deficits are caused primarily by inflation. The underlying theory is that inflation reduces tax revenues and increases nominal interest rates that, in turn, raise the cost of servicing Government debt. Heterodox policies rely on the use of temporary wage and price freezes to break inflation and inflationary expectations and currency devaluation to reduce nominal interest rates. In this manner, heterodox policies aim to stabilize the economy and reduce the budget deficit without requiring fiscal austerity. In contrast, the orthodox approach views money-financed fiscal deficits as a contributing cause of macroeconomic instability and not just a consequence of inflation. Orthodox policies use restrictive fiscal and monetary policies to reduce aggregate demand and to eliminate expectations of future inflationary deficit financing.

tacked inflation and budget deficits largely through wage-price controls and currency devaluation. They resulted in brief periods of lower inflation, but were followed by periods of longer and deeper recession. Carlos Menem was elected President in 1989 as Argentina entered its 3rd year of economic recession marked with unprecedented food riots and looting. With a monthly inflation rate of 197 percent in July 1989, Menem was allowed to assume office 5 months early to address the economic crisis.

Economic Stabilization Plans Fail

After his inauguration, President Menem immediately distanced himself from his Peronist party's history of government intervention in the economy. Menem chose a multinational corporate executive as economy minister³ and launched an economic stabilization program he termed "surgery without anesthetic." To stabilize the economy, Menem prodded business and labor into holding down prices and wages, ordered banks to cut interest rates below the rate of inflation, devalued the official exchange rate,⁴ and cut subsidies for public utilities.

The result was a dramatic decline in monthly inflation to 6-7 percent by November 1989. However, the lack of any real budget cuts caused the plan to unravel. The economics minister resigned after it became apparent that monthly inflation had returned to double-digit levels in December 1989, forcing Menem to make a third appointment to the position. By the end of 1989, a general loss of confidence in the administration's economic programs prompted many Argentines to rush to exchange their domestic assets for foreign currency—primarily U.S. dollars—forcing yet another devaluation.⁵ To stem the run on the austral, Menem's new economic team converted the equivalent of some \$3 billion of short-term austral bank deposits into longer-term dollar-denominated Government bonds. This last measure, by reducing the Government's short-term debts and decreasing the volume of austral-denominated assets, temporarily helped strengthen the austral.

President Menem never managed to turn the economy around during 1990. Consumer prices rose 95.5 percent in March alone, fell to a monthly average of 13 percent during the second quarter, rose again following an August hike in public service rates, and declined to under 5 percent in December, following new pronouncements of tight money policies. Announced budget cuts were effectively contradicted by an accommodating monetary policy. Moreover, Menem's economic team failed to achieve meaningful results either on announced cuts in the bloated public sector workforce or on announced crackdowns

³ Menem's first economy minister, who died less than 1 week after assuming the post, was replaced by another corporate executive.

⁴ The exchange rate was devalued from about 300 australs to the dollar to 650 australs to the dollar.

⁵ The official exchange rate was devalued to 1,000 australs to the dollar. At the same time, the quasi-legal "parallel" exchange rate slid to 1,795 australs to the dollar in December 1989.

against tax evaders. Projected savings from the administration's plan to sell off state-run enterprises were slow to materialize as privatizations were plagued by bureaucratic delays.

Foreign trade was the only bright spot in Argentina's 1990 economic performance. Despite an overvalued exchange rate,⁶ Argentina's export earnings increased by 15 percent from \$9.5 billion in 1989 to \$11 billion in 1990. Exports were helped by increased agricultural production and non-U.S. trade.⁷ With import demand dampened by falling real wages, sluggish economic activity, and uncertainty about the Government's future macroeconomic policy, Argentina recorded a \$7.3 billion trade surplus in 1990, versus a \$5.7 billion surplus in 1989.

Foreign exchange generated by the trade surplus allowed Argentina's central bank to hold the austral relatively steady and overvalued throughout most of 1990.⁸ This helped keep import prices down as part of the Government's anti-inflation strategy. Exchange rate stability ended when the sudden resignation of Menem's third economy minister in January 1991 precipitated a run on the austral sending it to over 9,400 to the dollar. Menem and his fourth economy minister, Domingo Cavallo, responded to this financial crisis by declaring a compulsory 1-day bank holiday to allow financial markets time to stabilize. As monthly inflation rose to 27 percent in February, the Menem administration announced its 11th economic crisis-management program. This latest program authorized the central bank to intervene in the foreign exchange market to maintain the exchange rate in the range of 9,700-10,000 australs per dollar. The 1991 program also introduced orthodox fiscal discipline through a new law prohibiting the central bank from printing new money to cover budget deficits unless the money is backed by gold, foreign currency, or certain forms of Government paper.

The initial results of Argentina's 1991 economic program are strongly positive. Monthly inflation declined to 11 percent in March and 5.5 percent in April. In addition, Buenos Aires announced a \$260 million fiscal surplus for April, although the administration has made similar claims in the past with surpluses created by "unusual accounting methods."⁹

⁶ Although consumer prices rose by 1,340 percent during the year, the austral depreciated only by about 300 percent in dollar terms. An overvalued exchange rate leads to a deterioration in the trade balance by reducing the earnings of home-country exporters while making imports less expensive in the domestic market. In overseas markets, the overvalued exchange rate makes home country goods relatively more expensive than other traded goods.

⁷ A significant proportion of Argentina's trade was with countries outside of direct influence of dollar exchange rates. Over 10 percent of Argentina's exports (primarily grain) was sold to the U.S.S.R. Another 10 percent of Argentine trade was with Germany, allowing Argentine exports to benefit from a less undervalued austral Deutsche mark exchange rate.

⁸ Austral-dollar end-of-quarter exchange rates in 1990 were 4,655 (first quarter), 5,265 (second quarter), 5,610 (third quarter), and 5,585 (fourth quarter).

⁹ Economist Intelligence Unit, *Argentina: Country Report*, No. 4, 1990, p. 8.

Economic Liberalization and Trade Regime Reforms

Although President Menem has so far failed to stabilize Argentina's economy, he has introduced far-reaching reforms to liberalize the country's trade and investment regime. The foreign investment regime was liberalized in September 1989 when Menem discontinued discriminatory requirements for foreign investors, eliminated Government prior approval (except for the banking and insurance sectors), and simplified registration procedures. Restrictions on buying and selling foreign exchange were lifted in December 1989. Argentina suspended duties on agricultural, livestock, and food imports for 180 days beginning February 1990, permanently reduced duties on a variety of imported fresh food products ranging from 13-24 percent to 5 percent in August 1990 to counter domestic price rises, reduced specific duties on many electronic products beginning December 1990, and promised to review specific duties every 180 days with a view towards their eventual elimination. Tariffs on Brazilian goods are scheduled to be cut by 40 percent in 1991 under an Argentina-Brazil economic integration agreement signed in July 1990. In March 1991, tariffs were reduced to an average level of 9 percent, with zero tariffs on raw materials and duties on intermediate and finished products of 11 and 22 percent respectively. The Menem-Cavallo economic team ended all specific import duties and lifted many of Argenti-

na's nontariff barriers, including sanitary and health controls which had been used to restrict imports.

Impediments to Stabilization and Liberalization

The Menem administration's heterodox economic stabilization policies have been at odds with the Government's open-door economic reforms. Unchecked monetization of the deficit, the biggest obstacle to Argentina's economic recovery, exacerbated inflation and inflationary expectations. Rising prices worked against the Government's efforts to hold domestic prices down through trade reforms such as the February and August 1990 tariff reductions on imported food. The resulting prolonged recession devastated Argentine industrial production, with manufacturing activity down by nearly 7 percent in 1990. The automotive sector, which saw a 20 percent decline in production and a 30 percent decline in sales in 1990 over 1989, typifies the industries hit hard by rising factor costs, higher prices, and the availability of less expensive imports under Argentina's July 1990 economic integration and duty-free trade agreement with Brazil.

President Menem's latest economic program promises to introduce orthodox fiscal discipline. If Buenos Aires follows through to end deficit monetization, this new program stands a significantly better than even chance of restoring economic stability and, with the administration's new trade reforms, promoting an era of trade-led economic expansion.

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SPECIAL FOCUS

Japanese Overseas Investments

In recent months, Japan has been criticized by some policymakers and analysts in the United States for having relinquished its global obligations and responsibilities during both the Gulf War and the Uruguay Round negotiations. At the same time, Japan has been expanding its presence around the world, particularly in East Asia, through direct investments, development assistance, and other business activities. The possibility of a United States-Mexico free trade agreement, the 1992 single market integration of the European Community and the potential for a Southeast Asian trading bloc have heightened concerns about Japanese investments in these regions, particularly regarding their impact on U.S. firms' competitiveness. A brief discussion of Japanese investments in the United States, Europe, Mexico, Latin America, and East Asia follows.

Overview of Japanese worldwide investment

According to Japan's Ministry of Finance, Japan's total direct investment worldwide was \$254 billion as of March 31, 1990. Of this amount, 27 percent or \$68 billion occurred in JFY 1989 compared to \$47 billion of new investment in JFY 1988. The United States accounted for 41 percent of Japanese cumulative investment worldwide or \$104.4 billion as of March 31, 1990. The second-largest destination for Japanese investment was Europe, accounting for \$45 billion, followed by East Asia, with approximately \$41 billion, and Latin America, with \$37 billion. Mexico accounted for \$2 billion of Japanese direct investment.

Increased Japanese investments overseas appear to be driven by different forces in industrialized and developing countries. For example, macroeconomic factors such as devaluation of the dollar and appreciation of the yen since 1985 encouraged Japanese firms to move overseas to reduce manufacturing costs and diversify their investments. Other factors that have encouraged Japanese investment abroad include pressures from the United States to reduce the bilateral trade deficit and attempts to avoid protectionism in both the United States and Europe.¹⁰ The large size of these markets relative to other countries, the availability of abundant managerial resources and educated labor forces, and easy access to supplies and distribution networks have also encouraged Japanese investment in the United States and Europe. In other regions such as East Asia and Mexico, Japanese firms have sought out low labor costs and growing markets. Many countries have offered investment incentives to Japan and other foreign investors such as tax holidays, subsidized industrialized parks and duty-free imports of components.¹¹

¹⁰ "Japan Inc. Stretches Its Global Foothold," *Washington Post*, Mar. 24, 1991, p. H-1.

¹¹ "What's Wrong With This Picture?" *Forbes*, Nov. 26, 1990, p. 158.

There are both benefits and drawbacks attributed to Japanese investment activities abroad. On the one hand, Japan's foreign investments have brought jobs, worker training, managerial techniques, investment in infrastructure, foreign exchange earnings and other benefits to host countries.¹² However, Japanese firms have been criticized for not promoting local managers, for not sourcing parts from local suppliers, and for their unwillingness to transfer technology to host-country firms. Critics of Japanese investment in the United States have also expressed concerns about the antiunion stance of Japanese management and about the potential impact of Japanese managerial influence on U.S. innovativeness.¹³ Mixed views about Japanese investment in the United States, Europe, and Asia have led to the simultaneous open encouragement of investment coupled with the enactment of legal restrictions designed to curb the loss of control over sensitive industries.

United States

Japanese direct investment in the United States totalled \$104.4 billion as of March 31, 1990,¹⁴ of which \$32.5 billion occurred in 1989. By contrast U.S. direct investment in Japan as of March 31, 1990 totalled \$7.9 billion or 50 percent of all foreign direct investment in Japan. This included 727 cases of new investment totalling \$1.6 billion in Japan between April 1, 1989, and March 31, 1990.¹⁵

During Japanese fiscal year (JFY) 1989, direct investment by Japan in the United States' manufacturing sector totalled \$16.4 billion, a decline from \$18.2 billion the previous year. As of December 1989, the number of Japanese-affiliated companies involved in manufacturing in the United States totalled 1,071, including 167 investments or acquisitions in 1989 alone. During the period 1980 through 1989, approximately 82 percent of Japanese investment was in the form of wholly owned subsidiaries.¹⁶ Tie-ups with other Japanese firms was another common type of investment. Until recently, most Japanese acquisitions involved friendly buyouts of U.S. companies; however, this trend may be changing as Japanese firms have become more aggressive in their investment strategies. The largest Japanese acquisition in 1990 was Matsushita Electrical Industrial's purchase of MCA, Inc. for \$6.6 billion.

The majority of Japanese investment in the U.S. manufacturing sector is in the auto industry. Japanese companies owned 7 auto and truck manufacturers and 180 parts suppliers in the United States at the end of 1989.¹⁷ Japanese investments in the auto

¹² See, for example, Kozo Yamamura "The Significance of Japanese Investment in the United States: How Should We React?" *Japanese Investment in the United States: Should We Be Concerned?*, Society for Japanese Studies, 1989, pp. 8-9.

¹³ Yamamura, p. 9.

¹⁴ This includes cumulative investment during the period JFY 1951 through 1989.

¹⁵ *Japan Economic Institute Report*, July 20, 1990, p. 11.

¹⁶ General Accounting Office, *Aspects of the U.S.-Japan Relationship*, July 1990, p. 16.

¹⁷ *Japan Economic Institute Report*, Jan. 18, 1991, pp. 1-4.

motive industry have been characterized by keiretsu¹⁸ relationships between Japanese auto makers and parts producers, according to U.S. auto industry representatives and other analysts.¹⁹

There are opposing views regarding the effects of keiretsu relationships in the United States on the ability of U.S. parts producers to sell to Japanese auto manufacturers in the United States.²⁰ On the one hand, Japanese keiretsu members have been criticized for maintaining close relations with other keiretsu firms and excluding non-keiretsu U.S. companies from participating in competitive transactions with them.²¹ According to a 1988 GAO report, U.S. auto suppliers cited difficulties in overcoming existing relationships between Japanese auto manufacturers and parts producers, and problems in obtaining drawings and specifications for designs, as obstacles to selling to Japanese auto producers in the United States.²² On the other hand, Japanese auto manufacturers claim that their preferences for purchasing from within their keiretsu are based on economic motivations similar to those of any other firm entering a foreign market. Japanese keiretsu firms state that this type of purchasing behavior is temporary and will change once U.S. auto parts producers are able to meet the requirements and standards of Japanese auto producers.²³ Complaints from the U.S. auto parts industry that Japanese auto manufacturers had moved their keiretsu system of buying parts primarily from Japanese affiliated companies to the United States led to the initiation of an investigation

¹⁸ Keiretsu are corporate groups solidified through a variety of formal and informal practices such as stable cross-shareholding, networks of debt capital, exchange of personnel, common traditions and corporate assets. Although there are conflicting definitions of keiretsu, in general they can be organized into three groups. First are the inter-market or horizontal keiretsu (firms from a broad range of commercial and industrial fields), descended from the pre-war zaibatsu. They are typically organized around a major bank, trading company, insurance company and large manufacturing company. Second are the intra-market or industrial keiretsu (firms representing successive stages of production or closely connected industries), usually organized around a large independent company and its subsidiaries and affiliates. These types of keiretsu are generally found in the auto, steel and electronics industries and are characterized by extensive subcontracting networks. Third are the distribution keiretsu, which include distribution, sales and marketing activities in the wholesale and retail sectors. For more details on the structure and functions of keiretsu, see USITC Phase I: *Japan's Distribution System and Options for Improving U.S. Access*, USITC publication No. 2291, June 1990, pp. 48-57; USITC U.S. Global Competitiveness: *The U.S. Automotive Parts Industry*, USITC Publication, December 1987, pp. 4-12 and 4-13; Chalmers Johnson, "Keiretsu: An Outsider's View," *Economic Insights*, September/October 1990, pp. 15-17; Jon Woronoff, "Japanese Industrial Collusion and Trade," Study for the Joint Economic Committee, Jan. 31, 1986; Richard E. Caves and Masu Uekusa, *Industrial Organization in Japan*, The Brookings Institution, 1976.

¹⁹ There are a number of keiretsu-affiliated companies in other industries besides auto parts. According to one study, 20 percent of the 1,403 Japanese firms entering the United States through 1985 belonged to 1 of the 6 major keiretsu groups. See Yamamura, p. 124 for further information on survey by Toyo Keizai Shimpasha.

²⁰ For a discussion of views on Japanese keiretsu in the auto industry see Wassmann, Ulrike and Yamamura, Kozo, "Do Japanese Firms Behave Differently? The Effects of Keiretsu in the United States," *Japanese Investment in the United States: Should We Be Concerned?*, Society for Japanese Studies, 1989, pp. 127-137 and USITC U.S. Global Competitiveness: *The U.S. Automotive Parts Industry*, December 1987, USITC publication No. 2037.

²¹ Ibid, General Accounting Office, p. 119.

²² See *Foreign Investment: Growing Japanese Presence in the U.S. Auto Industry*, March 1988, 64 pp.

²³ Wassmann, pp. 128-130.

by the Federal Trade Commission (FTC) in May 1990.²⁴ Partly in response to such criticisms, Japan's Ministry of International Trade and Industry (MITI) issued public statements encouraging Japanese firms overseas to source from local suppliers.²⁵

Another sector that has received substantial Japanese investment is the U.S. steel industry. All of Japan's major steel companies have entered into arrangements with U.S. steel producers or operate their own mills. Other sectors where Japan has invested include consumer electronics, semiconductors, computers, telecommunications, chemicals, plastics and printing ink, machine tools, construction and materials-handling equipment and ball bearings. States with the largest Japanese investments in manufacturing in order from most to least investment are California, Ohio, Illinois, Michigan, Georgia, Indiana, Texas and Kentucky.²⁶

Japanese real estate investments, the largest of which are located in New York, Los Angeles, Honolulu, and Chicago, totalled \$13.1 billion during 1990. This was a decline from \$14.8 billion the previous year.²⁷ Japan was the fourth-largest investor in U.S. real estate behind Canada, Great Britain and the Netherlands.²⁸ Real estate investments in Hawaii and California have proved attractive because of these States' proximity to Japan and the numbers of Japanese people living in those areas.²⁹

Japanese investments in U.S. agricultural and timber land totalled 542,535 acres as of September 30, 1990, compared to 295,000 acres in 1989. The increase was primarily due to purchases of citrus farms in Florida and cattle ranches in Colorado. Japanese purchases have been spread out geographically in the Southeast, Far West, Pacific Northwest, and especially Hawaii, where heavy investments in real estate occurred.³⁰

Some of the incentives for Japanese investments in the United States during the 1980's were lower production costs due to the relative weakness of the dollar avoidance of trade retaliation or alleviation of protectionist sentiment opportunities for expanding into new technologies and industries and acquisition of market knowledge.³¹

²⁴ Prepared Statement of Janet Steiger, Chairman, Federal Trade Commission, before the Committee on the Judiciary of the U.S. House of Representatives, May 3, 1990. The FTC investigation was continuing as of May 1, 1991. The results of the economic analysis of keiretsu relationships in the auto sector was tentatively scheduled for release in August 1991.

²⁵ "MITI To Request Use of More Local Auto Parts," *Daily Report: East Asia*, Foreign Broadcast Information Service, Mar. 20, 1990, p. 5.

²⁶ Susan MacKnight, *Japan's Expanding U.S. Manufacturing Presence*, Japan Economic Institute, 1988 Update, October 1989, pp. 2-3.

²⁷ "Japanese Investment in U.S. Real Estate Dips Again," *Washington Post*, Mar. 28, 1991, p. A10 and Japan's Buying Binge," *U.S.A. Today*, Jan. 9, 1990.

²⁸ "Japanese Investment in U.S. Real Estate Dips Again," p. A10.

²⁹ Cooper, Mary H., "Foreign Investment in the U.S.," Editorial Research Reports, *Congressional Quarterly*, p. 168.

³⁰ Ibid.

³¹ Speech given by U.S. Ambassador Armacost held Oct. 11, 1989, sponsored by Japan's Council for Better Investment in the United States as reported in U.S. Department of State telegram, No. 19209, Oct. 20, 1989 (unclassified).

There are opponents and proponents of Japanese direct investment in the United States.³² On the one hand, proponents argue that Japanese investment provides jobs, transfers technology and managerial techniques, and increases U.S. competitiveness and tax revenues. For these reasons, local governments frequently offer special grants, loans and tax incentives to encourage Japanese investment in their area.³³ Proponents of Japanese investment in the United States argue that the increase in Japanese investment during the 1980's was transitory and in response to macroeconomic forces. As the U.S. budget deficit is reduced leading to reductions in U.S. interest rate and the dollar, Japanese investments would be expected to diminish, according to this viewpoint.³⁴ Proponents claim that capital investments by Japan or other foreign countries should be welcomed as they provide a mechanism for reducing the trade imbalance.³⁵

Critics of Japanese investments are skeptical that Japanese managerial skills can be transferred successfully to U.S. firms and about the alleged gains from Japanese technology. Some critics charge that many of the jobs created in the United States by Japanese firms are lower skilled jobs while higher value-added jobs are kept in Japan. According to opponents, Japanese investments in real estate and agricultural property has raised the costs of real estate in some areas, making it unaffordable for Americans.³⁶ In addition, there have been concerns that the United States has given up some of its key manufacturing, financial, and cultural assets.³⁷ Growing Japanese investments in high-technology industries, such as computer-related companies, have been a source of concern to some policymakers who fear that the United States may be forfeiting future competitive advantages. Such concerns have prompted the introduction of numerous legislative proposals to curb or retaliate on a quid pro quo basis against further Japanese investment.³⁸ However, the United States' continued dependence on Japan to finance the U.S. budget deficit and fears that retaliatory measures by Japan in response to U.S. restrictions on investment could undermine the securities markets, have softened criticism of Japan's investments.³⁹

³² For a more detailed summary of the views of both proponents and critics of Japanese investments in the United States, see Yamamura, pp. 27-40.

³³ Cooper, p. 176.

³⁴ Ibid., p. 9.

³⁵ Ibid., p. 8.

³⁶ Ibid., p. 9.

³⁷ See, for example, Kozo Yamamura, "The Significance of Japanese Investment in the United States: How Should We React?" and Lawrence B. Krause, "Japanese Investment in the United States," in *Japanese Investment in the United States: Should We Be Concerned?*, Society for Japanese Studies, 1989; "Japanese Firms Pursue Headlong Expansion, Adding to Trade Fears," *Wall Street Journal*, Oct. 25, 1989, p. A1.

³⁸ Cooper, p. 177.

³⁹ See, for example, Cooper, p. 177.

Europe

Japanese cumulative investment in Europe totalled \$45.0 billion as of March 31, 1990, including \$14.8 billion in 1989. Japanese investment was the highest in the United Kingdom (\$5.2 billion in JFY 1989) followed by the Netherlands (\$4.5 billion) with West Germany and France (approximately \$1.1 billion each).⁴⁰ While the United States continued to receive the largest share of global Japanese investment, the rate of expansion of investment has been the highest in Europe. Investment in Europe rose from 15.8 percent in 1985 to 21.9 percent in JFY 1989. As of January 31, 1991, there were 676 Japanese firms operating in Europe. Of this total, 187 were located in the United Kingdom, 122 in France, 109 in Germany, 64 in Spain, 39 in Italy and 36 in the Netherlands.⁴¹

European countries have encouraged Japanese investment for many of the same reasons as other countries have: to create employment opportunities, increase value-added output, to foster inward technology transfers and to develop local suppliers. At the same time European Governments have discouraged the development of "screwdriver assembly" plants⁴² by imposing local content requirements on investments relating to high value-added technology such as integrated circuits. To cope with these restrictions, Japanese semiconductor manufacturers have increased their investments in production facilities. Opposition has arisen from some political parties in Europe as it has in the United States over Japanese acquisition of companies in so-called sensitive or national security sectors. For example, Fujitsu Ltd.'s purchase in 1990 of 80 percent of Britain's only mainframe computer maker, International Computers Ltd., further heightened debate over the selling off of certain industries to foreign companies.⁴³ In France there has been vocal opposition to Japanese real estate purchases in the Alsace region, where world renowned vineyards are. Sony produces videocassette recorders, compact disc players and 8-millimeter camcorders at its factory in this area. Other Japanese electronic component makers such as Yamaha and Ricoh have also moved into the region.⁴⁴

Japanese investment in Europe's auto sector has received particular attention while the EC has moved toward harmonizing regulations governing commerce after 1992. While consensus on an EC import ceiling for Japanese automobiles and treatment of locally assembled Japanese autos has not been reached, the

⁴⁰ *Japan Economic Institute Report*, June 15, 1990, pp. 10-12.

⁴¹ "Japan Steps up Presence in Europe," *Financial Times*, May 1, 1991.

⁴² For an explanation of the EC's "screwdriver plant" rules, see USITC *The Effects of Greater Economic Integration Within the European Community on the United States: First Follow-Up Report*, March 1990, USITC publication No. 2268, pp. 14-7 through 14-9.

⁴³ "On the Verge of 1992: Japan and the European Community," *Japan Economic Institute Report*, Mar. 15, 1991, pp. 11-13.

⁴⁴ "Japaning of Europe at Full Tilt," *Los Angeles Times*, Aug. 2, 1990, p. A1.

most recent proposal would restrict Japanese autos to 18 percent of the combined EC market for 5 years starting in 1993. Japan's average share of the EC's auto market was 9.4 percent in 1990.

The Government of Japan opposes the inclusion of locally assembled autos under any quotas that are imposed because such restrictions would count against an overall quota on imports of Japanese autos and could potentially affect output from transplants in other parts of the world.⁴⁵ Toyota, Nissan, and Honda have invested in production facilities in the United Kingdom with plans to produce 500,000 autos by 1995. Isuzu has established a joint venture with GM Europe to produce light trucks, and Mazda and Mitsubishi have announced plans to produce vehicles in Europe, probably through joint ventures.⁴⁶ However, because of concerns and uncertainties associated with the outcome of EC directives in the auto sector, Japanese companies are reportedly postponing other investment decisions.

Mexico

Japanese cumulative direct investment in Mexico was \$1.3 billion at the end of 1989 compared to \$16.7 billion by the United States.⁴⁷ ⁴⁸ Japanese investment has decreased in recent years due to concerns over Mexico's creditworthiness that have arisen because of the country's large current account and trade deficits. In 1989, six Japanese banks reportedly moved out of the country as a result of doubts about Mexico's ability to repay its loans.⁴⁹ Japan's new direct investment in Mexico declined from \$87 million in JFY 1988 to \$36 million in JFY 1989.

Major Japanese companies such as Nissan, Honda, Komatsu, Mitsubishi, and Toshiba have invested in manufacturing or other industrial operations in Mexico. These investments often serve as bases to export products or parts back to the United States. For example, Nissan's plant in Aguascalientes ships engines and transaxles to the Nissan plant in Tennessee while Honda exports about 10,000 motorcycles from its plant near Guadalajara to the United States.⁵⁰

Japan has invested in maquiladoras⁵¹ since the mid-1970's. As of mid-1989, 58 of the 1,699 ma-

⁴⁵ *Japan Economic Institute*, Jan. 12, 1990, p. 10.

⁴⁶ For information on Japanese investment in the EC's auto sector, see USITC *The Effects of Greater Economic Integration Within the European Community on the United States: Second Followup Report*, September 1990, USITC publication No. 2318, p. 20-6, and "World Car Industry," *Financial Times*, Sept. 18, 1990, p. 1.

⁴⁷ USITC *Review of Trade and Investment Liberalization Measures by Mexico and Prospects for Future United States Mexican Relations*, Phase I, April 1990, USITC publication No. 2275, p. 5-3.

⁴⁸ Japan's Ministry of Finance reports that Japanese cumulative investment in Mexico was \$1.7 billion as of Mar. 31, 1990. *Japan Economic Institute Report*, June 15, 1990, p. 10.

⁴⁹ "Japanese Reluctant to Invest in Mexico Despite Reforms," *The Journal of Commerce*, Jan. 16, 1991.

⁵⁰ "Circling the Target," *Latin Finance*, No. 11, p. 48.

⁵¹ Maquiladoras are offshore assembly operations, often owned by foreign firms, that engage in export-manufacturing, processing, or secondary assembly operations. For additional explanation of the legal status and operations of maquiladoras, see *Review of Trade and Investment Liberalization Measures by Mexico and Prospects for Future United States-Mexican Relations*, Phase I, April 1990, USITC publication No. 2275.

quiladoras operating in Mexico were Japanese-owned.⁵² Japanese maquiladoras range in size from relatively small ones employing 25 to 50 people to very large operations with 1,500 to 2,000 employees working multiple shifts.⁵³ While the earliest

Japanese maquiladoras were established along the Texas-Mexico border, the largest concentration is now in Tijuana. Among those Japanese companies that have established maquiladoras along Mexico's Pacific coast are Sanyo, Matsushita, Sony, and Hitachi. These companies produce a wide range of products including televisions, cameras, electronics products, and household appliances.⁵⁴ A majority of Japanese maquiladoras are incorporated as subsidiaries of Japanese operations in the United States.⁵⁵ Most of these are concentrated in the electronic and electronics products and transportation equipment industries and source primarily from Japan.⁵⁶ However, there are also maquiladoras producing more unusual products such as fruit juice, chemicals, and porcelain figurines.⁵⁷

There are several factors that have encouraged Japanese investment in Mexico. First, the Japanese maquiladoras, like all others, benefit from exemptions from import duties, low labor costs, and close proximity to the U.S. market. Second, the yen's appreciation in recent years has been a major incentive for Japanese firms to move offshore to lower cost areas. By investing in Mexico, Japanese firms have been able to insulate themselves from fluctuations in the yen/dollar exchange rate. From the perspective of United States-Japan trade relations, there are two major reasons for setting up maquiladoras in Mexico. For some products, such as autos and televisions, Mexican investments by Japanese semiconductor manufacturers have been a means of avoiding trade restrictions imposed by the United States. In addition, moving into Mexico is viewed by the Japanese as a means to avoid even higher increases in its trade surplus with the United States since its exports from Mexico are included in that country's trade balance, thereby helping to calm trade tensions on the part of the United States.⁵⁸

Some similarities between Japanese investment trends in Mexico and in other countries have been observed. For example, Japanese suppliers have begun moving into Mexico to service the previously established maquiladoras: "The second wave of Japanese investors are suppliers, and they are starting to arrive. . ."⁵⁹ As has occurred in the United States, Japanese auto parts manufacturers, such as Atsuga

⁵² "Circling the Target," p. 50.

⁵³ *Japanese Maquilas A Special Case*, The University of Texas at Austin, Graduate School of Business, Research Monograph, 1988, p. 33.

⁵⁴ "Plants in Mexico Help Japan Sell to U.S.," *New York Times*, May 26, 1987.

⁵⁵ *Ibid.*

⁵⁶ *Japanese Maquilas A Special Case*, p. 35 and USITC *Review of Trade and Investment Liberalization Measures by Mexico*, Phase I, USITC publication No. 2275, p. 5-15.

⁵⁷ *Japanese Maquilas—A Special Case*, p. 33.

⁵⁸ "Plants in Mexico Help Japan Sell to U.S.," *New York Times*, May 26, 1987, p. D10.

⁵⁹ "Circling the Target," p. 22.

Motor Parts Company, have moved into Mexico to serve both Japanese and American auto manufacturers.⁶⁰ Other characteristics of Japanese investment in Mexico are that companies buy or build their own facilities rather than leasing space, and they have been relatively successful in avoiding high turnover rates by employing Japanese management techniques with Mexican labor.⁶¹

Japan has extended its presence into Mexico in other ways as the country's second-largest creditor, behind the United States. More than \$19 billion of Mexico's debt is held by Japan's financial institutions. Japanese Government agencies and lending institutions have taken an active role in supporting Japanese investment activities in Mexico. For example, the Ministry of International Trade and Industry (MITI) provides trade insurance for Japanese exports to Mexico and the Export-Import Bank provided over \$350 million in loans to Mexican businesses during the first 9 months of 1989.⁶² As the second-largest trading partner for the United States, Mexico, and Canada, Japan's Mexican investments are likely to be affected by any free trade agreement reached among the three countries.⁶³ While Japan generally favors such an arrangement as long as it is able to have continued access to the United States and Canada for its products, there are concerns about rules of origin and treatment of its maquiladoras in Mexico. Japanese Government officials and businessmen have encouraged Mexico to continue liberalizing its investment and banking laws and to work towards creating a more stable investment climate.⁶⁴

Latin America

Japan's direct investment in Latin America was \$36.9 billion as of March 31, 1990. Japanese direct investment during JFY 1989 declined from \$6.4 billion to \$5.2 billion as of March 31, 1989.⁶⁵ There have been two major changes in Japanese investment since the 1960's. First, Japanese investment has shifted from mainland Latin American countries to the Caribbean and Panama. Secondly, there has been a shift from manufacturing towards services. During the 1970's almost one-half of Japanese investment was in manufacturing. By the late 1980's, only about 7 percent was in manufacturing while services accounted for over 90 percent of Japanese investment in this region.⁶⁶

Japan's nonmanufacturing investments are concentrated in the banking and transportation sectors.⁶⁷

⁶⁰ Ibid., pp. 49-50.

⁶¹ "Plants in Mexico Help Japan Sell to U.S.," p. D-10.

⁶² "Circling the Target," p. 47.

⁶³ "Japan Watching Free-Trade Talks With Concern," *Seattle Times*, Apr. 11, 1991, p. B4.

⁶⁴ "Japanese Reluctant to Invest in Mexico Despite Reforms" and "Mexico Urges Increased Japanese Investment," *Daily Report: East Asia*, Foreign Broadcast Information Service, Apr. 8, 1991, pp. 2-3.

⁶⁵ *Japan Economic Institute Report*, June 15, 1990, p. 10.

⁶⁶ Barbara Stallings, "Latin American Trade Relations With Japan: New Opportunities in the 1990s?", University of Wisconsin Madison, Jan. 10, 1991, p. 2.

⁶⁷ *Japan Economic Institute Report*, Apr. 13, 1990, pp. 2-3.

Other large investments have been in mining operations, steel and nonferrous metals. For example, Japan has invested in Brazil's iron and steel industries and new investments are expected in Brazil and Venezuela's aluminum industries.⁶⁸ Peru and Chile have also been sites for Japanese mining investments.

Most of Japan's investments in the manufacturing sector has been in metals (\$2.0 billion), transport equipment (\$1.1 billion), electric machinery (\$536 million) and textiles (\$440 million). Japanese firms have potential plans for investments in consumer electronics manufacturing facilities in Argentina.

In general, Japanese firms have been reluctant to invest heavily in Latin America because of rapid or high inflation in many countries, political instability, and uncertainties over nationalization of companies.⁶⁹ The exception has been tax havens in Panama (and shipping registrations), Cayman Islands, and the Bahamas, which have attracted the majority of Japanese funds.⁷⁰ Brazil is the only Latin American country with historical ties to Japan, with descendants of Japanese immigrants from the turn of the century now totalling approximately 1.2 million. Japanese firms have tended instead to invest in Southeast Asia where they have closer cultural and historical ties and where there are cheaper labor and natural resource supplies.⁷¹

Aside from its direct investments, Japan has been a major provider of private and public sector credits to Latin America. Japan is the leading creditor for medium and long-term private bank loans, holding \$46 billion of Latin American debt in 1989 compared to \$36 billion by the United States. Since the implementation of the Brady Plan during 1990, Japanese banks have been withdrawing from the Latin American market and taking write-downs on their loans. The major sources of public funds from Japan are through bilateral arrangements and multilateral agencies. In 1988, \$280 million was distributed to Latin America in grants and technical assistance. Public funds are also distributed through the Export-Import Bank of Japan and the Overseas Economic Cooperation Fund.

East Asia

Japan is the leading investor in almost every East Asian country.⁷² Japanese investment in East Asia⁷³ totalled approximately \$7.8 billion in FY 1989 alone and cumulative investment as of March 31, 1990 totaled approximately \$48.0 billion. As of March 31, 1990, East Asia accounted for 25 percent of

⁶⁸ Stallings, p. 2.

⁶⁹ *Japan Economic Institute Report*, Apr. 13, 1990, pp. 2-3.

⁷⁰ Investments totalled \$14.9 billion in Panama, \$6.7 billion in The Caymans, and \$3.3 billion in the Bahamas as of Mar. 31, 1990. *Japan Economic Institute Report*, Apr. 13, 1990, p. 4.

⁷¹ *Japan Economic Institute Report*, Apr. 13, 1990, pp. 2-3.

⁷² "What's Wrong With This Picture?," *Forbes*, Nov. 26, 1990, p. 156.

⁷³ East Asia includes Indonesia, Malaysia, Philippines, Singapore, Thailand, South Korea, Taiwan and Hong Kong. ASEAN includes Thailand, Singapore, Malaysia, Philippines, Indonesia, and Brunei. The newly industrializing countries (NICs) in Asia include South Korea, Taiwan, Singapore and Hong Kong.

Japanese overseas manufacturing investment compared to 52 percent in North America and 11 percent in Europe.⁷⁴ The level of U.S. investment in East Asia has been markedly lower. For example, during 1986 through 1989, the United States invested \$3 billion in three of the fastest growing markets in East Asia—Malaysia, Thailand and Indonesia—while Japan invested \$11 billion in these countries.⁷⁵

Japanese companies are moving into other countries of Asia as well. Japanese trading companies have offices in Vietnam, Laos, and Mongolia.⁷⁶ Japanese companies are not bound by the U.S.-led trade embargo of Vietnam. However, Japan is not extending bilateral aid to Vietnam until a settlement on Cambodia is reached.⁷⁷ MITI is setting up a program to provide development assistance to nurture export industries in Pakistan, Bangladesh, India, and Sri Lanka. The primary features of the program called "New Comprehensive Cooperation Plan for Asian Industrialization," are investing in infrastructure, training human resources, improving product quality, engaging in technological cooperation and providing funds for financing and investment in these countries.⁷⁸

Yen appreciation sparked Japanese investments in Asia during the late 1980's. According to one report, "Since then, Japanese firms have come to view Asia as an extension of their industrial machine, producing goods for both their domestic and world markets."⁷⁹ There are differing views on the primary motivations for and the level of Government involvement in Japan's investment flows. According to some analysts, Japanese investments in East Asia are being made from a long-term, strategic viewpoint to serve as an economic base to counter the emergence of trading blocs in other parts of the world. The Japan External Trade Organization has stated that while investments are made in the United States and Europe to alleviate trade frictions, manufacturing operations were set up in Asia for longer term considerations.⁸⁰

According to this view, Japan's investment strategy is to take advantage of low wage rates in these countries to assemble high value-added components from Japan and export them to the United States.⁸¹ One report commenting on Japan's long-term investment strategy in East Asia states that:

⁷⁴ "Drop in the bucket," *Far Eastern Economic Review*, Dec. 20, 1990, pp. 48-49.

⁷⁵ "What's Wrong," p. 154.

⁷⁶ "Drop in the bucket," *Far Eastern Economic Review*, Dec. 20, 1990, p. 49.

⁷⁷ "Japanese firms eye more investment in Vietnam," *The Japan Economic Journal*, Mar. 16, 1991.

⁷⁸ *Foreign Broadcast Information Service, East Asia*, Jan. 10, 1991 and "Asia May Overtake U.S. as Japanese Export Mart," *The Journal of Commerce*, Jan. 17, 1991.

⁷⁹ "Drop in the Bucket," *Far Eastern Economic Review*, Dec. 20, 1990, p. 48.

⁸⁰ "Drop in the Bucket," *Far Eastern Economic Review*, Dec. 20, 1990, p. 48.

⁸¹ "Japan Inc. Stretches Its Global Foothold," *Washington Post*, Mar. 24, 1991.

... Japan has gradually transformed itself into the single most important element in the region's economy. The strategy reaches well beyond Malaysia and is part of Tokyo's industrial plan for turning much of Southeast Asia into Japan's manufacturing backyard.⁸²

Low wage rates in countries such as Thailand and Malaysia, corporate tax exemptions, and lower energy costs in some countries have provided incentives for Japanese companies to relocate.⁸³ "Network Production System" is a term used by the Japanese to describe their integrated regional investment activities in East Asia. In the electronics industry, Japanese companies produce precision and high-value-added components in Singapore and ship them to assembly plants in low-wage countries such as Malaysia and Thailand. Matsushita's 28 factories in Asia, outside of Japan with annual production of \$3.5 billion, are examples of this type of production strategy.⁸⁴

Another view holds that Japan's investments are less influenced by Government decisions and based more on economic considerations of individual companies. According to one source:

Significantly, the investment flows emanating from Japan are not the work of the Ministry of International Trade and Industry's visible hand, but of Adam Smith's invisible one.⁸⁵

Kenneth Courtis has noted that the "... microeconomic decisions by Japanese corporations are creating a common market." Another economist adds, "Asian economic integration is largely driven by economic and business logic, not by governments as in the European common market."⁸⁶

One sector where Japanese investments in East Asia have been particularly successful is the auto sector, which is growing at 20 to 30 percent annually. Japanese auto producers have a combined share of 80 percent in most East Asian countries and a network of parts suppliers spread throughout the region.⁸⁷ Mitsubishi has the largest presence in Asia with equity shares in auto and parts companies in the Philippines, Malaysia, Thailand, Indonesia, Korea and Taiwan. In South Korea, a country which bans Japanese auto imports, Japanese firms hold minority shares in Korean auto firms. The United States, meanwhile, has gained a foothold only in Taiwan and Korea.⁸⁸ For example, Ford, GM, and Chrysler have a combined share of 39 percent of Taiwan's market, largely because of import restrictions by Taiwan on Japanese autos.⁸⁹

⁸² "A New Car for Malaysia, New Influence for Japan," *Washington Post*, Mar. 6, 1991, p. 7.

⁸³ "Japan's Economic Power Surges in the Region," *Wall Street Journal*, Mar. 26, 1991.

⁸⁴ "What's Wrong," p. 163.

⁸⁵ "What's Wrong," p. 154.

⁸⁶ These views are cited in "What's Wrong," p. 155.

⁸⁷ Amy Borrus, "Japan Streaks Ahead in East Asia," *Business Week*, May 7, 1990, p. 55.

⁸⁸ For example, Ford has a plant selling Mazda's in Taiwan and GM has a joint venture with Daewoo to produce cars in Korea.

⁸⁹ "What's Wrong," p. 157.

⁹⁰ Borrus, pp. 54-55.

An auto plant built by Mitsubishi in Malaysia exemplifies the activities of Japanese firms worldwide. At these manufacturing facilities, workers are trained in Japanese management techniques, just-in-time manufacturing and quality circles. Once autos began rolling off the assembly line, Japanese auto parts suppliers began moving in to link up with Malaysian partners.⁹⁰

Aside from autos, other products that Japanese firms are producing in East Asia include audio equipment, home appliances, electronics, stereos, radio-cassette tape recorders, and calculators.⁹¹ Japanese firms are producing ball bearing and electronic components, refrigerators, color televisions, electric motors, and fans in Thailand.⁹²

There is some evidence to indicate that Japanese investment in Asia has been geared towards exporting back to Japan. In 1980, 9.8 percent of total sales by Japanese-owned firms in Asia was sent back to Japan. By 1987, this figure had risen to 16.7 percent.⁹³ Most of Japan's imports from its Asian subsidiaries were manufactured goods in the telecommunications or transportation equipment sectors.

⁹⁰ Ibid.

⁹¹ "Japanese Direct Investment Abroad," *Journal of Japanese Trade and Industry*, July-August 1987, p. 11.

⁹² "Japan Builds A New Power Base," *Business Week*, Apr. 10, 1989, p. 44.

⁹³ Edward J. Lincoln, *Japan's Unequal Trade*, (Washington: The Brookings Institution, 1990), pp. 121-122.

Meanwhile, the United States' manufacturing presence in East Asia is limited to oil company operations and high-technology companies that have set up assembly operations in Singapore and Malaysia.⁹⁴ Except for Ford's manufacturing operations in Taiwan (which sells mostly Mazda designs) and GM's joint venture with Daewoo in Korea, U.S. auto companies have not made major inroads in Southeast Asia.⁹⁵ Outside of manufacturing, the majority of U.S. firms with sales in East Asia are multinationals with histories of exporting to Japan such as IBM, Coca Cola, Amway, and Proctor & Gamble.⁹⁶

Conclusions

Japan's worldwide investment continues to increase while Japanese firms search for low-cost manufacturing sources outside of the country in Asia and Mexico, for example, and they attempt to alleviate or avoid protectionism in North America and Europe. Future overseas investment trends by Japanese firms will be largely affected by the yen performance and by growth in Japan's domestic economy. Japanese investments in Mexico and the United States, and in Europe, are likely to become the focus of short-term attention as integration of these markets progresses. In the long-term, however, Japanese investments in Southeast Asia could receive increased attention by the United States, if this region gains importance as an export base for Japanese products headed for the U.S. market.

⁹⁴ "New Car for Malaysia, New Influence for Japan." p.

⁹⁵ "What's Wrong," p. 157.

⁹⁶ Ibid., p. 156.

STATISTICAL TABLES

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Industrial production, by selected countries and by specified periods, January 1988–February 1991

(Percentage change from previous period, seasonally adjusted at annual rate)

Country	1989				1990				1991					
	1988	1989	1990	IV	I	II	III	IV	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.
United States	5.4	2.6	1.0	0.2	0.6	4.3	4.0	-7.2	1.1	-8.3	-17.1	-11.5	-6.5	-9.7
Japan	9.5	6.2	4.6	2.9	3.5	7.7	9.8	7.1	-11.6	44.1	-8.9	-8.1	17.1	-0.9
Canada	4.4	2.3	0.3	-1.9	1.7	0.7	0.5	4.2	(¹)	(¹)	2.2	0	1.1	-3.2
Germany	3.2	5.2	5.8	8.4	8.4	0.8	8.5	10.5	-2.0	7.3	-2.9	2.0	(¹)	(¹)
United Kingdom	3.7	0.3	-0.7	0.2	-0.2	7.3	-12.4	-5.7	-6.4	2.2	-16.4	-7.6	-7.7	21.3
France	4.1	3.6	1.1	-1.2	-1.7	6.1	6.0	-10.2	-18.1	-1.1	-21.8	-17.8	2.8	-7.2
Italy	6.9	3.9	-0.7	0.6	-6.2	1.0	-1.2	-8.1	-10.4	-20.8	-12.5	-1.0	6.7	-15.1

¹ Not available.

Note.—Data presented for Germany includes information only for what was once West Germany when data for the combined Germanys are available they will be used.

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, May 3, 1991.

Consumer prices, by selected countries and by specified periods, January 1988–February 1991

(Percentage change from previous period, seasonally adjusted at annual rate)

Country	1989				1990				1991						
	1988	1989	1990	IV	I	II	III	IV	Oct.	Nov.	Dec.	Jan.	Feb.		
United States	4.1	4.8	5.4	4.0	8.1	3.9	6.9	7.0	7.5	3.7	3.6	5.5	2.7		
Japan	0.7	2.3	3.1	2.6	0.9	2.3	3.2	6.2	12.9	5.7	2.4	12.5	-3.5		
Canada	4.0	5.0	4.8	3.9	6.0	2.8	4.1	6.9	10.3	8.3	1.5	33.2			
Germany	1.3	2.8	2.7	3.0	2.5	1.8	3.6	4.2	8.4	-2.3	1.1	2.1	1.6		
United Kingdom	4.9	7.8	9.5	7.6	8.8	15.5	9.8	6.1	7.8	-2.2	4.2	4.5			
France	2.7	3.5	3.4	3.9	3.1	2.7	4.2	4.5	6.0	-0.5	1.0	4.7			
Italy	5.0	6.6	6.1	5.9	5.8	5.4	7.2	6.8	6.5	6.8	2.6	6.8	9.2		

¹ Not available.

Note.—Data presented for Germany includes information only for what was once West Germany. When data for the combined Germanys are available they will be used.

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, May 3, 1991.Unemployment rates, (total labor force basis)¹ by selected countries and by specified periods, January 1988–March 1991

Country	1989				1990				1991						
	1988	1989	1990	I	II	III	IV	Nov	Dec.	I	Jan.	Feb.	Mar.		
United States	5.4	5.2	5.4	5.2	5.2	5.5	5.8	5.8	6.0	6.5	6.1	6.4	6.8		
Japan	2.5	2.3	2.1	2.1	2.1	2.1	2.1	2.1	2.0	2.1	2.0	2.0	2.1		
Canada	7.7	7.5	8.1	7.5	7.4	8.1	9.1	9.0	9.3	10.1	9.6	10.2	10.5		
Germany	6.2	5.6	5.2	5.4	5.3	5.2	4.8	4.7	4.7	4.5	4.5	4.5	4.5		
United Kingdom	8.2	6.4	6.4	6.1	6.1	6.2	6.7	6.7	7.0	8.2	7.7	8.1	8.6		
France	10.1	9.9	9.2	9.2	9.1	9.2	9.2	9.4	9.3	(⁴)	9.3	9.4	(⁴)		
Italy ²	7.8	7.7	6.9	7.2	6.7	6.7	6.8	(³)							

¹ Seasonally adjusted; rates of foreign countries adjusted to be comparable with U.S. rate.² Many Italians reported as unemployed did not actively seek work in the past 30 days, and they have been excluded for comparability with U.S. concepts. Inclusion of such persons would increase the unemployment rate to 11–12 percent in 1986–1990.³ Italian unemployment surveys are conducted only once a quarter, in the first month of the quarter.⁴ Not available.Source: *Unemployment Rates in Nine Countries*, U.S. Department of Labor, May 1991.

Money-market interest rates,¹ by selected countries and by specified periods, January 1988–April 1991
 (Percentage, annual rates)

Country	1990								1991						
	1988	1989	1990	I	II	III	IV	Oct.	Nov.	Dec.	I	Jan.	Feb.	Mar.	Apr.
United States	7.8	9.3	8.3	8.4	8.4	8.2	8.1	8.1	8.0	7.8	6.8	7.2	6.5	6.5	6.1
Japan	4.4	5.3	6.9	6.2	6.7	6.9	7.5	(2)	7.5	7.7	7.6	(2)	(2)	(2)	(2)
Canada	9.6	12.2	13.0	12.9	13.7	13.1	12.3	12.5	12.4	11.9	10.5	11.1	10.4	9.9	(2)
Germany	4.3	7.0	8.5	8.4	8.3	8.4	8.9	8.6	8.9	9.2	9.1	9.3	9.0	9.1	(2)
United Kingdom	8.9	13.3	14.8	15.2	15.1	14.9	13.8	13.9	13.6	13.8	13.1	13.9	13.1	12.4	(2)
France	7.9	9.2	10.3	11.0	9.9	10.2	10.1	10.0	10.1	10.2	9.7	10.3	9.6	9.4	(2)
Italy	11.0	12.7	12.7	13.3	12.7	11.8	13.0	11.7	13.1	14.0	14.0	11.1	12.3	12.4	(2)

¹ 90-day certificate of deposit.

² Not available.

Note.—Data presented for Germany includes information only for what was once West Germany when data for the combined Germanys are available they will be used.

Source: *Federal Reserve Statistical Release, April 22, 1991* *Economic and Energy Indicators*, Central Intelligence Agency, May 3, 1991.

Effective exchange rates of the U.S. dollar, unadjusted for inflation differential, by specified periods, January 1988–April 1991

(Percentage change from previous period)

Item	1990								1991				
	1988	1989	1990	III	IV	Oct.	Nov.	Dec.	I	Jan.	Feb.	Mar.	Apr.
Unadjusted:													
Index ¹	88.0	91.3	86.5	85.3	81.7	81.8	81.1	82.2	82.8	82.2	81.1	87.4	86.8
Percentage change	-6.5	6.4	-5.3	-5.1	-4.2	-2.8	-.8	1.3	1.3	0	-1.3	7.2	-.7
Adjusted:													
Index ¹	87.4	91.8	88.1	86.8	84.1	83.9	83.4	84.7	85.2	84.9	84.0	85.1	89.1
Percentage change	-4.8	6.8	-4.0	-4.7	-3.1	-2.0	-.5	1.5	1.3	.2	-1.1	1.3	4.5

¹ 1980–82 average=100.

Note.—The foreign-currency value of the U.S. dollar is a trade-weighted average in terms of the currencies of 15 other major nations. The inflation-adjusted measure shows the change in the dollar's value after adjusting for the inflation rates in the United States and in other nations; thus, a decline in this measure suggests an increase in U.S. price competitiveness.

Source: Morgan Guaranty Trust Co. of New York, May 1991.

Trade balances, by selected countries and by specified periods, January 1988–March 1991

(In billions of U.S. dollars, f.o.b. basis, at an annual rate)

Country	1990										1991		
	1988	1989	1990	I	II	III	IV	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
United States ¹	-118.5	-109.1	-100.5	-101.2	-90.8	-104.4	-104.4	-118.8	-114.4	-75.9	-88.5	-66.0	-48.6
Japan	94.9	77.4	63.2	65.2	57.6	65.2	66.0	66.0	68.4	80.4	(3)	(3)	(3)
Canada	8.2	5.9	9.3	5.6	10.4	11.2	9.6	8.4	12.0	10.8	2.4	(3)	(3)
Germany ²	72.9	72.0	60.4	89.6	67.2	50.0	32.8	68.4	13.2	26.4	(3)	(3)	(3)
United Kingdom	-37.5	-39.3	-32.0	-38.4	-35.6	-28.0	-23.2	-25.2	-24.0	-19.2	-28.8	(3)	(3)
France	-5.5	-7.0	-9.4	-1.6	-7.6	-15.6	-13.6	-15.6	-1.2	-21.6	-13.2	(3)	(3)
Italy	-11.1	-13.0	-11.8	-14.0	-8.0	-12.0	-17.2	-25.2	-33.6	4.8	-24.0	(3)	(3)

¹ 1986, exports, f.a.s. value, adjusted; imports, c.i.f. value, adjusted. Beginning with 1987, figures were adjusted to reflect change in U.S. Department of Commerce reporting of imports at customs value, seasonally adjusted, rather than c.i.f. value.

² Imports, c.i.f. value, adjusted.

³ Not available.

Note.—Data presented for Germany includes information only for what was once West Germany. When data for the combined Germanys are available they will be used.

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, May 3, 1991 and *Advance Report on U.S. Merchandise Trade*, U.S. Department of Commerce, May 17, 1991

U.S. trade balance,¹ by major commodity categories, and by specified periods, January 1988–March 1991

(In billions of dollars)

Country	1990										1991			
	1988	1989	1990	I	II	III	IV	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
Commodity categories:														
Agriculture	13.9	17.9	16.3	4.9	4.1	3.3	4.2	1.1	1.2	1.6	1.4	1.2	1.6	1.6
Petroleum and selected product— (unadjusted)	-38.1	-44.7	-54.6	-14.1	-10.8	-13.5	-16.2	-5.5	-6.4	-5.4	-4.3	-4.5	-2.8	-3.1
Manufactured goods	-146.1	-103.2	-90.1	-19.4	-19.5	-27.0	-24.3	-7.3	-10.4	-8.6	-5.3	-5.8	-5.7	-3.2
Selected countries:														
Western Europe	-12.5	-1.3	4.0	1.4	2.9	-8	.6	.9	-6	-4	1.6	1.1	1.4	3.2
Canada ²	-9.7	-9.6	-7.5	-9	-1.3	-2.7	-2.8	-1.2	-1.3	-6	-9	-4	-5	-5
Japan	-51.7	-49.0	-41.0	-9.6	-9.9	-9.9	-11.7	-3.1	-4.5	-3.8	-3.4	-3.5	-3.2	-3.6
OPEC (unadjusted)	-8.9	-17.3	-24.3	-1.8	-4.3	-6.6	-7.1	-2.8	-2.7	-2.5	-1.9	-2.0	-1.3	-1.0
Unit value of U.S. imports of petroleum and selected products (unadjusted) ³	\$18.12	\$16.80	\$20.34	\$19.26	\$15.59	\$19.45	\$28.20	\$23.60	\$30.09	\$29.56	\$25.70	\$22.98	\$18.58	\$17.15

¹ Exports, f.a.s. value, unadjusted. 1986–88 imports, c.i.f. value, unadjusted; 1989 imports, customs value, unadjusted.

² Beginning with February 1987, figures include previously undocumented exports to Canada.

³ Beginning with 1988, figures were adjusted to reflect change in U.S. Department of Commerce reporting of imports at customs value, seasonally unadjusted, rather than c.i.f. value.

Source: *Advance Report on U.S. Merchandise Trade*, U.S. Department of Commerce, May 17, 1991.

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